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2006

Online at <http://mpra.ub.uni-muenchen.de/5578/>

MPRA Paper No. 5578, posted 07. November 2007 / 04:49

# *New Imperialism or New Capitalism?\**

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## I. THE U-TURN

The early years of the twenty-first century mark a significant change in global affairs. During the 1980's and 1990's, the world was marching to the tune of neoliberalism, or so it seemed. With communism declining and eventually disintegrating, the entire globe finally opened up for business. Military conflict waned, defense spending dropped sharply, and the focus shifted from "war profits" to "peace dividends." The old ideological battles were over. History had "ended," we were told, giving way to a multicultural "global village." Borders were knocked down, trade and capital mobility soared to unprecedented heights, immigration—legal and illegal—proliferated, and tourism became the leading growth sector. Governments the world over deregulated their economies. Privatization was hailed as the new path to efficiency and state assets were sold at fire sale prices. Budget deficits were curtailed and "sound finance" became the new orthodoxy.

This new trajectory, argued its advocates, created a "new economy" of inflationless growth. High technology and global integration promised a continuous supply-side boom, while cheap labor in "emerging markets," global competition, and resolute central bankers assured that the boom would not be spoiled by bottlenecks and rising prices. The panacea seemed so secure that most academics abandoned political economy. Instead, they invented a more exciting creature called "civil society," which they then "deconstructed" with a new antiphilosophy called "postmodernism." The whole package was given a fashionable logo: "globalization."

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\* This article was written in December 2004. It was submitted to *Review* in February 2005 and accepted for publication in June 2005.

But in 2001 the trajectory suddenly changed. The wave of cross-border capital flow has subsided and U.S. economic policy has turned from orthodoxy to profligacy. Multilateralism has given way to unilateralism. In issues ranging from the environment to trade agreements to war, the U.S. government seems to be walking its own course. Protectionism is no longer a dirty word, and there is even talk of “intra-capitalist conflict.” The promotion of capitalist peace has given way to preemptive strikes and rising military spending. Oil crises have reemerged from oblivion and the ghost of stagflation has come back to haunt even the free marketeers.

As the world changed, so did the slogans. Talk of “free markets” gave way to theories of “terrorism.” Instead of “multiculturalism,” there was now a “clash of civilizations.” In lieu of “competition” came new “crusades” and “infinite wars,” McJihads against McDonald’s. Analysts of the “new economy,” having lost their rating with the melting stock market, were overtaken by the old pundits of “realpolitik” and “national security.”

### *Why Have the Pundits Got it Wrong?*

Although the experts have been quick to endorse the U-turn, the truth is that few if any anticipated it and most remain puzzled by its trajectory. What accounts for this lack of foresight and lingering confusion? How could so many analysts and theorists, both radical and conservative, continue to project neoliberal globalization when the tide was clearly turning against it? What prevented them from foreseeing the coming bellicosity and the new wars, the rising oil prices, and the returning threat of stagflation?

The issue here goes beyond prediction. It is not that the experts gave us the wrong answers, but that they failed to ask the right questions. Of the many unasked questions, the most burning concern the institution of *capital*. The sad fact is that, these days, most of those who write on social affairs—global or local—know little about capital accumulation and care even less. And those who do deal with accumulation—namely the economists, including many Marxists—often use antiquated categories and theories that no longer fit present-day realities.

To a large extent, the reason for this neglect lies in the victory of postmodern “discourse.” Postliberal and postfascist writers find it more academically lucrative to “deconstruct” issues of ethnicity,

culture, religion, and gender than to deal with the boring “texts” of political economy. Naturally, this subsidized preference keeps them away from anything remotely connected to capital—their “alter”/“other” on which they want to know nothing. By contrast, post-Marxists retain the rhetoric of the “labor theory of value,” paying customary tribute to the icons of “surplus value,” “exploitation,” “falling tendency of the profit rate,” and “productive capital,” among others. But these concepts have become sacrosanct deities. Most post-Marxists have lost any desire to question their meaning. Worse still, with “texts” having substituted for reality and the “imaginary” for facts, many post-Marxists increasingly keep their work clean of any trace of empirical research.<sup>1</sup>

### *Toward a Different Theory of Accumulation*

Unfortunately, capital rules the world, perhaps more effectively than ever, so those who ignore it are bound to misunderstand it (although, admittedly, they often continue to enjoy it). Capital also keeps changing, which means that those who do theorize it have to constantly rethink their concepts and to contrast those concepts with the changing reality.

The aim of this article is twofold. We seek to develop a different understanding of what capital is and what constitutes accumulation, and, simultaneously, to use this new concept as a basis for reinterpreting contemporary capitalism, including its present U-turn. To set the stage, we begin in Section II by briefly critiquing contemporary explanations of the current U-turn in world affairs.

Section III argues that the common shortcoming of these explanations lies in their inadequate concepts of value based on utility or abstract labor. The consequences of this inadequacy are twofold.

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<sup>1</sup> A recent Marxist conference in which one of us (Nitzan) was a discussant illustrates the new spirit. I criticized one of the presenters on my panel for dealing with pseudo-facts. She provided a theory for why neoliberalism has made the world more unstable—yet without first demonstrating that the world *indeed* has grown more unstable, or at least that our senses tell us that it has. I used several charts with fairly simple indicators for unemployment, growth rates, and the stock market to show that the neoliberal period of the 1980’s and 1990’s was neither more nor less unstable than the earlier postwar years. My statistical intervention was not challenged. Instead, it was deemed irrelevant: “What are facts?!” lashed back the flabbergasted theorist (yes, in these very words). Facts were time consuming, problematic, and ambiguous. Worse still, they were merely “constructed” by rulers to impose their power, so why bother?

First, by leaving the underlying units of accumulation ambiguous if not unobservable, the theory is unable to explain what accounts for the accumulation of money values. Secondly, by defining value in material terms, the theory keeps political economy bifurcated, with “politics” inherently external to the supposedly “economic” reality of accumulation.

Sections IV, V, and VI outline an alternative, *power* theory of value. The theory builds on three related features. First, it emphasizes *differential accumulation* rather than *absolute* accumulation; that is, the augmentation of power measured by relative asset growth rather than the amassment of utility or abstract labor embodied in material objects. Secondly, it stresses the importance of *dominant capital* groups rather than capital “in general” versus capitals “in competition”; in so doing it brings to the fore the political power that lies at the very heart of accumulation. And, thirdly, it points to two key *regimes of differential accumulation* that rely on corporate merger (breadth) and stagflation (depth) rather than on green-field growth and price stability. This theory yields a completely different understanding of what constitutes accumulation and how it occurs—not “in connection” to politics, but as *the* central political process in capitalism. It also offers a ready template for empirical investigation—one that theories of capital based on utility or abstract labor cannot offer.

Section VII examines the twentieth-century history of differential accumulation. It identifies the pendulum swings between breadth and depth, as well as the long-term imperative toward the globalization of ownership and the transnationalization of the capitalist ruling class.

Section VIII situates the current U-turn within this framework. It argues that the current wars do not signal a return to old style state-centric imperialism, but rather that they may be part of a new cycle of depth accumulation by an increasingly global dominant capital.

## II. THE CONVENTIONAL CREED

The sharp U-turn in emphasis from “growth” and “peace” to “stagflation” and “wars” has been accompanied by a heated debate. The main contention is ideological. Whereas during the period of

the global village the focus was on the costs and benefits of globalization, now that the slogans changed, the dispute centers on the pros and cons of American imperialism. Endless effort has been put into concluding that the U-turn has been good or bad for humanity, depending on the preference. By contrast, far less energy has been spent in arguing basic concepts and establishing simple facts. What do the terms “globalization” and “American imperialism” precisely mean? Has the world indeed shifted from the former to the latter? How should we quantify the costs and benefits? Who, exactly, pays the cost and who reaps the benefits? Apparently, these are questions that most experts do not feel compelled to investigate too closely, or even ask.

### *Neoliberal Wars*

Over the past few years, many “free market” strategists have become staunch supporters of the new wars. Their newly-found bellicosity is certainly significant. Until not long ago, most of them believed that peace and prosperity were brought by “liberalism” and “democracy” and that war and poverty were the consequence of “Bolshevism,” “socialism,” and other tyrannies. So why the sudden change?

It all started with the fall of the Soviet Union. Overnight, the world had become “unipolar”; unipolar worlds are known for their instability, and instability is known to give strategic experts a change of heart. Presently, the center of global instability is the Middle East. The region is home to religious fundamentalism, anti-liberal culture, and plenty of weapons—conventional and otherwise. The region is also home to two-thirds of the world’s oil reserves and one-third of its daily output. Previously, superpower rivalry kept the lid on this toxic brew. But now, with the Soviet Union gone, the mix of oil, fanaticism, and weapons is simmering, threatening both democracy and neoliberal prosperity. Evidently, the free countries of the world have no choice but to take up arms. The only way to defuse the Middle East threat once and for all is direct military intervention and, if need be, outright conquest. In the now-famous words of *New York Times* columnist Thomas Friedman:

For globalization to work, America can’t be afraid to act like the almighty superpower it is. . . . The hidden hand of the

market will never work without the hidden fist . . . and the hidden fist that keeps the world safe for Silicon Valley's technologies is called the US Army, Air Force, Navy and Marine Corps (1999: 373).

And so a new hybrid was born: *neoliberal wars*.

Radicals were quick to denounce the invasions of Afghanistan and Iraq—for much the same reason that the free marketeers loved them. For the most part, they, too, accepted that the new wars were part of a neoliberal American imperialism—only that, in their view, this imperialism was deplorable since it spelled the continued exploitation and oppression of the postcolonial Third World.

Unfortunately, few of those who espouse this position seem able to clearly define the concepts they use and show how these concepts explain the way American imperialism *actually* works. Is “American imperialism” a new breed of imperialism, or is it merely the contemporary reincarnation of what earlier took the form of Cold War imperialism, nineteenth-century British imperialism, Islamic imperialism, and Roman imperialism? Has there ever been a nonimperial capitalism, or is capitalism simply a form of imperialism? Who exactly are the rulers and subjects of this imperialism? Is the “American state” in the driver’s seat—and if so, what constitutes that state? The Federal government? The White House? The Pentagon? The American people? The Western countries? The governments of those countries? The transnational corporations? The IMF and World Bank? Bill Gates? All of the above? Does the “American empire” serve the interest of capital—and if so, what exactly is this interest? Does the “American Empire” serve capital in general, or only one of its “fractions”? What criteria should we use to answer these questions? In what sense, precisely, are developing countries “exploited” and “oppressed”? By whom and to what extent? Is China “dependent” on and exploited by the United States, or is it the other way around? How do we decide? Can the labor theory of value help us measure this exploitation and dependency? And if not—how do we know?

These questions—once the basic staple of critical Marxism—seem to have disappeared. Few Marxists answer them and even fewer bother to raise them. Have these issues all been settled? Do they no longer matter? Or, perhaps asking them is simply too dangerous for what is now commonly referred to as the Marxist “tradition”?

## *The American Empire*

Ellen Meiksins Wood, for example, confidently defines globalization as the “economic imperialism of capital,” with the United States as its “hegemon” (Meiksins Wood, 2002: 25). This new imperialism, she says, no longer has formal colonies and instead leverages itself through a system of sovereign nation-states. Indeed, “It has, in fact, been a major strategy of capitalist imperialism even to create local states to act as conduits of capitalist imperatives” (2002: 24). Unfortunately, many of these states are not sufficiently integrated into the system, and there is a constant risk that some of them will rebel against the “rule of global capital” (2002: 24). In order to minimize this risk and keep these states subordinated, there is a need for “a new doctrine of extra-economic, and especially military coercion.” And since “even US military power cannot be everywhere at once . . . the only option is to demonstrate, by frequent displays of military force, that it can go anywhere at any time, and do great damage” (2000: 25). Thus, the overriding purpose of waging war now, declares Meiksins Wood, is not to conquer new territory as such, but to “demonstrate US hegemony” (2002: 26).

Many of those who fought hard against colonialism may be surprised to learn that they did so in the interests of the “American Empire.” And the empire certainly seems to be in trouble. In the early 1950’s, before academia discovered Gramscian “hegemony,” a planeload of U.S. operatives was enough to topple Mossadegh and establish an Iranian regime friendly to the foreign oil companies. This was the pinnacle. From then on, the yield on U.S. “hegemony” fell rapidly. In the early 1970’s, a peasant army kicked the almighty American military out of Vietnam. By the early 2000’s, a whole coalition of armies, equipped with smart weapons, high-tech communication, and state-of-the-art surveillance seems unable to restore even the semblance of order in a small peripheral country called Iraq.

Contrary to Meiksins Wood’s assertion, the U.S. military *cannot* “go anywhere at any time, and do great damage.” In fact, with the exception of a surprise nuclear attack, there are very few places it can go to without putting itself at serious risk. Can the United States successfully attack China, India, Nigeria, Mexico, Russia, or Brazil? Even small renegade states such as Syria, Iran, and North Korea do not seem overly impressed by American threats, while



tiny underground militias show little hesitance in attacking U.S. assets around the world. Surely, the United States can conquer Grenada, or Haiti. But do such conquests “demonstrate U.S. hegemony,” or are they evidence of American decline?

In the 1950’s, macroeconomic indicators attested the superpower status of America. The country ran a balanced budget and enjoyed a current account surplus; its commodities flooded the world and it owned one-half of the world’s foreign assets; the dollar was unchallenged and the public debt, accumulated mostly during the First and Second World Wars, remained stable at around \$1 trillion. From the late 1960’s onward, though, there has been a marked deterioration in all of these categories. The trade surplus inverted into a growing deficit, the budget balance ballooned into a massive deficit, the ownership of foreign assets by U.S. residents was halved to one-quarter of the world total, and government debt rose to over \$7.5 trillion—the world’s largest. These developments were accompanied by the collapse of Bretton Woods, the establishment of the G7, the appearance of the Euro and currency baskets, and, most recently, a move toward an Asian financial union—all challenges to the U.S. dollar.

### *Informal Empire*

According to Leo Panitch and Sam Gindin, to characterize imperial decline in this way would be grossly misleading. In their view, the American empire, like the British Empire in its early development, is largely “informal,” built on the “economic and cultural penetration of other states” and “sustained by political and military coordination with other independent governments” (2003: 8). In this context, measurements based on formal state boundaries cannot reveal the underlying, informal power secured by *interstate* penetration.

This comparison, though, is misleading, in that it ignores a very big difference between the two cases. With the British Empire, capital penetrated mostly in *one* direction, from the core to the periphery. By contrast, in the American case capital moves in *both* directions—inward as well as outward.

But that is no cause for imperial concern. On the contrary, say Panitch and Gindin. These very developments, they argue, “sustain the American economy’s ability to have privileged access both to

the world's savings and to cheaper goods" (2004: 72) (i.e., the ability to run ever increasing current account deficits financed by ever growing capital inflow). The reason the Americans can enjoy this panacea, Panitch and Gindin continue, is that global integration puts everyone in the same boat and therefore limits the incentive for rivals to trigger a crisis. Global integration means "that a crisis of the dollar is not an 'American' crisis that might be 'good' for Europe or Asia, but a crisis of the system as a whole, involving severe dangers for all" (2004: 73). Finally, according to Panitch and Gindin we should not be misled by the mere ownership of assets:

To suggest, as Arrighi does, that because the holders of American Treasury bills are now primarily in Asia we are therefore witnessing a shift in the regional balance of power, is to confuse the distribution of assets with the distribution of power (2004: 73).

This logic makes the American empire truly unbeatable. Consider the following questions. If ballooning deficits and debt are signs of imperial strength (more debt-financed consumption for Americans), should we conclude that falling deficits and debt are signs of imperial weakness? Or could we treat both as signs of strength? Similarly, if a dollar crisis is "systemic," and therefore harmful also to other countries and regions, should we then conclude that a strong dollar is systemic as well, and therefore good for everyone, not just the American empire? Finally, if the distribution of global assets in favor of Asia is not a sign of power as Giovanni Arrighi argues, what *is* a sign of power? How could American investment in China and Chinese investment in the United States *both* be evidence of American power?

During the Industrial Revolution, the rise of the European bourgeoisie and the decline of its aristocracy were accompanied by a redistribution of income from landed rent to industrial profit and financial interest. Do such links no longer matter? Have we reached the point where class processes are no longer related to income? Has power been divorced from the distribution of ownership? Perhaps—but then why talk about the "world *capitalist* order"? If the United States continued to borrow every year the equivalent of 5% of GDP, at what point would this borrowing start to weaken

its “informal empire”? Has this power not been weakened already? How do we know?<sup>2</sup>

### *Accumulation by Dispossession*

American weakness is the starting point of David Harvey’s version of the “New Imperialism” (Harvey, 2003). The United States, he asserts, “lost its superiority in production after 1970 and may well now be losing financial dominance, leaving it with military might alone” (2003: 82–83). It is this loss of superiority that explains the new global bellicosity.

The theoretical underpinnings of Harvey’s claim can be summarized as follows. Accumulation takes two basic routes. The first route is expanded reproduction. Expanded reproduction creates new value and new surplus, the bulk of which gets accumulated. The process, of course, is far from smooth. Indeed, left to its own devices and to Marx’s theory of the falling rate of profit, expanded reproduction tends to produce crises of overaccumulation. Capitalists have several options to deal with such crises. They can accept redistribution in favor of workers to help absorb the excessive surplus; they can let their capital devalue; or they can go for a “spacio-temporal fix”—a term that Harvey invented to describe geographical expansion into previously noncapitalist areas and forms of reproduction on the one hand, and long-term, mainly infrastructural investments on the other.

Naturally, of the three options, the most acceptable to capitalists is Harvey’s spacio-temporal fix. And, yet, unfortunately for capitalism, the fix generates its own contradictions: eventually, it recreates overaccumulation wherever it is applied. In the international context, this recreation leads to intensified competition between a

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<sup>2</sup> “Let us be blunt about it,” says Martin Wolf,

The U.S. is now on the comfortable path to ruin. It is being driven along a road of ever rising deficits and debt, both external and fiscal, the risk of destroying the country’s credit and the global role of its currency. It is also, not coincidentally, likely to generate an unmanageable increase in U.S. protectionism. Worse, the longer the process continues, the bigger the ultimate shock to the dollar and levels of domestic real spending will have to be. Unless trends change, 10 years from now the U.S. will have fiscal debt and external liabilities that are both over 100 percent of GDP. It will have lost control over its economic fate (“America is Now on the Comfortable Path to Ruin,” *Financial Times*, Aug. 18, 2004, 11).

growing number of countries, all burdened by their own overaccumulation and all seeking outlets for their excessive surpluses.

This increasing congestion pushes capitalism toward the second route of primitive accumulation, or, in Harvey's vocabulary, "accumulation by dispossession." In contrast to expanded reproduction where accumulation occurs through the appropriation of newly-created surplus, dispossession relies on the appropriation of existing surplus or the bare subsistence of others. Whereas expanded reproduction works through the seemingly peaceful mechanism of the market, accumulation by dispossession relies on power, with the use of numerous techniques, ranging from stock market manipulation, through debt crises, to the commodification of nature, and open military conquest.

Historically, expanded reproduction and accumulation by dispossession have oscillated countercyclically, according to Harvey. During the latter half of the nineteenth century, overaccumulation at the core led to dispossession through imperialist expansion. Britain was increasingly challenged by other overaccumulators, and the conflict eventually culminated in two world wars. The emergence in 1945 of the United States as the new hegemon made expanded reproduction once more the main engine of global capitalism. But since the 1970's, with Europe and Japan making a comeback and, more recently, with East Asia developing its own overaccumulation, the pressure for accumulation by dispossession re-emerged. The new wars in the Middle East are the newest manifestation of this predatory process. The United States is trying to arrest its hegemonic decline, and it is "looking to control oil supplies as a means to counter the power shifts threatened within the global economy" (Harvey, 2003: 80–81).

Besides the new vocabulary, the argument adds little substance to existing theories of imperialism, particularly those articulated by the Monopoly Capital school. But there is a difference. Earlier theorists of monopoly capitalism, such as Kalecki (1971a; 1971b; 1972), Tsuru (1956), Steindl (1976), Baran & Sweezy (1966), and Magdoff (1969; 1972), took great pains to *both* theoretically conceptualize and empirically investigate the processes of accumulation they wrote about; regardless of whether they were right or wrong, their research methods stand as beacons for generations to come. Harvey, by contrast, does neither.

Instead, he begins by setting up two parallel worlds. The first world, that of expanded reproduction, works according to the rules of Marx's general theory of accumulation. This is where labor value, surplus value, capital accumulation, and overaccumulation, are determined. The other world, that of accumulation by dispossession, obeys none of these rules. This separation stands in theory. In practice, though, the two worlds get mixed up, and according to Harvey that mixture makes it hard to "discern how the stern laws of economics work behind all the smoke and mirrors" (2003: 79).

Stated in passing, the problem reads like a mere technicality. It is not. Harvey confidently asserts that "Global capitalism has experienced a chronic and enduring problem of overaccumulation since 1970s" (2003: 64). But then, being unable to separate the "stern laws of economics" from the "smoke and mirrors," how does he know that the problem—assuming there was one—indeed was one of overaccumulation? In order to draw such a conclusion, he needs, first, to clearly define and empirically measure "accumulation" in the context of "expanded reproduction"; secondly, to explain and empirically illustrate actual cases of "normal" accumulation; thirdly, to empirically show how concrete instances of "overaccumulation" differ from this "normal" accumulation; and, last but not least, to show how, in a world "distorted" by "smoke and mirrors," he can disentangle the effect of "accumulation by dispossession" from that of "overaccumulation."

Harvey does none of those things. Having no data at his disposal, he sends the reader to Robert Brenner, whose empirical work presumably constitutes evidence for the overaccumulation crisis (2002). Unfortunately, this latter work provides no such evidence. Brenner does supply plenty of data. But his data measure rates of profits and other earthly indicators, not labor values; and since these indicators reflect both the "stern laws" and the "smoke and mirrors," they cannot prove anything about the *underlying* overaccumulation in the realm of expanded reproduction. Moreover, it is clear, even from Brenner's conventional account, that U.S. rates of profit have been on an *uptrend* since the early 1980's—which makes one wonder how this uptrend could constitute evidence of "chronic and enduring" overaccumulation.<sup>3</sup>

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<sup>3</sup> It is unclear whether Harvey believes his theory could indeed be "proven," let alone "refuted." In his *Limits to Capital* he plays both cards: "While the idea of value

Finally, there is the issue of oil. Harvey seems to accept at face value the realist belief that “American power” depends on controlling the global oil valve, with his own added bit that this control represents “accumulation by dispossession.” And maybe both of these claims are correct—only that Harvey does not explain how and why. Suppose the U.S. government were in control of oil. Would it stop selling it to China and Japan? Probably not. Would it raise the price? Perhaps—but, then all firms—“American” and “non-American”—would have to pay the higher price, so where would the imperial gain come from? Would the government give discounts to U.S. companies, and if so, how would it prevent them from re-selling the oil at the higher world price? How should we compute the cost to the “American empire” of gaining control over global oil? What if the cost exceeded the benefit? Should we then speak of “*decumulation* by dispossession”? Who, exactly, would pay for this cost and who would reap the benefits? Again, there may be convincing answers to each of these questions, but Harvey does not even ask them.

### III. CAPITAL ACCUMULATION: THEORY IN PARALYSIS

In our view, the paralysis of Marxist theory is rooted in the simple fact that most Marxists have stopped thinking about the concept that matters most: *capital*. True, scholarly and popular Marxism is replete with references to the “logic of capitalism,” the “interest of the capitalist class” and the inevitability of “accumulation crises.” But for the most part, these references are lip service. With the exception of a few diehards, most have ceased to question the theoretical meaning of accumulation and to investigate its actual gyrations.

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as an accounting tool or as an empirically observable magnitude plainly had to be abandoned,” he says, “it could still be treated as a ‘real phenomena with concrete effects’ . . . . It could be constructed as the ‘essence’ that lay behind the ‘appearance,’ the ‘social reality’ behind the fetishism of everyday life” (1999: 36).

The question is whether this “essence” generates a worldview that is both *systematic* and *refutable*. No one can “see” an electron, but quantum physics has been able to use the concept as a basis for systematic predictions. Can we do the same with value? Can we use it to predict production, prices, profits, or anything else? Can value analysis ever fail?

Radicals justly criticize liberal theories for espousing concepts and frameworks that no longer relate to the real world. And indeed, at its core, neoclassical economics has remained more or less unchanged for a century. But can we not say the same thing about Marxism? Of course, there have been endless debates and numerous innovations, but the fundamental categories and processes that Marx set up in his *Das Kapital* have remained pretty much intact. Over the past century, Marxists have provided plenty of new answers. But what we really need are new questions.

And the most burning question is simple enough: "What exactly is capital?" Presently, there are two answers to this question, each based on a long-standing myth: the liberal myth of utility and the Marxist myth of abstract labor. Both myths have had a historical mission. The first helped justify the rising bourgeois order; the second was a weapon to fight it. Both have run their course. They both need to be challenged.

### *Capital Without Power*

The form of capital is unambiguous. Capital appears to us as a money-yielding asset, whose quantity is simply the amount it is worth in dollars and cents. There is a debate between neoclassicists and Marxists over what makes something an asset and what determines its monetary magnitude, but the general boundaries of this debate are clearly marked. In particular, both sides agree that capital is a "material" substance whose essence is rooted in the "reality" of production and consumption. This agreement completely divorces the analytical category of capital from power, with devastating consequences for political economy.

The supposedly material essence of capital on the one hand and the processes of power on the other are seen as embedded in two parallel worlds—"economics" and "politics." Liberals use this duality to justify the rule of capital and demand less "political intervention" in the name of more "economic efficiency"; radicals try to do the opposite by showing how "bourgeois politics" bolsters "capitalist economics"; and in both cases, the duality keeps the analysis of capitalism inherently bifurcated and hopelessly fractured.

Consider this bifurcation more closely. In their analysis, orthodox economists have tended to abstract from power altogether. As

Joseph Schumpeter put it, capital for them “consisted of goods,” and specifically of “produced means of production” (1954: 632–33). Since John Bates Clark’s *The Distribution of Wealth* (1965 [1899]), the “magnitude” of capital is thought of as being intimately connected to the productive output of capital, measured in “utils.” The link works as follows. The income of the capitalist is assumed to be proportionate to the (marginal) output of her capital; the ratio of income to capital sets the rate of return; and the rate of return determines the maximum pace at which capitalists can add to, or accumulate, their capital stock (with all quantities measured in so-called “real,” material terms).

The process of accumulation is entirely “economic.” Being fully governed by perfect competition and equilibrium, it leaves no room for power. The only way for power to enter the picture is from the *outside*. The “intrusion” of power is said to run havoc by “distorting” accumulation and undermining “efficiency”—and yet, miraculously, it has no bearing on the substance of capital itself.

This immunity to power is fully reflected in the way national statisticians conceive of and “measure” capital (a category that they often refer to, more benignly, as “wealth”). According to the U.S. Department of Commerce, “wealth, in the broadest sense, consists of resources with the capacity to produce output and income” (1999: M–3). And since output and income are supposedly made of universal, time-invariant “utils,” the wealth that produces these “utils” must also be made of the same universal building blocs.

Based on this logic, a piece of “capital” circa 2000 BC is quantitatively comparable to a piece of “capital” dated 2000 AD; we can say, for example, that a modern tractor is 92,135 times bigger than an ancient plow. Similarly with various “capitals” at a given point in time. For the statisticians, machines, software, structures, automobiles, houses, schools, military hardware, and religious buildings are all “wealth.” Presumably, they all generate output and income measured in universal “utils,” and, therefore, they are all quantitatively comparable.<sup>4</sup> This quantitative equivalence is strictly restrict-

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<sup>4</sup> These comparisons are made regularly and with great “precision” (assuming you accept their underlying premise). Thus, according to the U.S. Department of Commerce’s “Fixed Asset Tables,” in 2002 the country’s fixed assets, prorated in terms of their ability to generate “utils,” consisted of 16.1% private equipment and software, 23.3% private non-residential structures, 39.7% residential structures, and 20.9% government assets. The statisticians also knew to tell us by how much each type of asset had grown over time. According to the same tables, from 1972 and 2002 the “quanti-



ed to the realm of productivity and is completely independent of power. Whether the wealth is produced by slaves, serfs, workers, free human beings, or perpetual motion is entirely irrelevant to its quantity.

In contrast to the neoclassicists, Marx saw capital as impossible without power. Means of production, he said, became capital only when they were privately owned for the purpose of making profit, and private ownership could not exist unless backed by power. Furthermore, power mattered a great deal for the actual process of accumulation. Mediated through the class struggle, power affected both the rate of profit and the level of production, and hence the volume of profit that can be plowed back as investment for the purpose of accumulation.

But as in the neoclassical case, here, too, power has no bearing on the “magnitude” of capital as such. That magnitude, conceived as “value,” is equal to the abstract labor time socially necessary for producing the capital. And once the capital has been produced, power no longer matters. From that point onward, its value (or process of devalorization) depends only on the pace of depreciation (through wear and tear) and the rate of technical change (through obsolescence). Granted, power remains crucial for the broad understanding of capitalism, and processes related to class, ideology, monopolization, finance, state institutions, and imperialism are still central to Marxist analyses. But unless these processes affect depreciation or technology, they are irrelevant for the value of capital itself.<sup>5</sup>

And so emerged a theoretical no-man’s land separating power from capital. Fernand Braudel, who saw “capitalism” as a power system distinct from the “market,” was forced, for lack of an alternative, to fall back on the “reality” of capital goods, that, in his words, “can after all be grasped, touched, and unequivocally defined” (1985: II, 239).

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ty” of “util-generating wealth” embedded in engines and turbines rose by 47%; in religious structures by 49%; in education structures by 69%; in missiles by 99%; and in aircraft by 195 percent. (The Department of Commerce’s “Fixed Asset Tables” are available from <http://www.bea.doc.gov/bea/dn/home/fixedassets.htm>.)

<sup>5</sup> It is significant to note here that Marxists were unable to come up with their own measures for capital based on labor values, primarily due to the hurdle of reducing concrete to abstract labor without relying on wages. And, so, in their empirical work they continue to use the official, neoclassical statistics, complete with its utilitarian, nondialectical biases.

Is there a solution? Can power be incorporated into the Marxist and neoclassical definitions of capital? In our view, the answer is “no.” Political economy, both mainstream and radical, has been deeply influenced by the mechanical worldview of Kepler, Galileo, Hobbes, Locke, Hume, Leibniz, and, above all, Newton. Following Newton, political economy is seen as a “mechanism” governed by the tendency toward “equilibrium” (and its deviant, “disequilibrium”). Equilibrium, in turn, requires a common unit, an underlying, immutable “substance” that everything else is made of. In the physical world this basic unit is hydrogen; in the economy, it is “abstract labor” or “utility.”

Thus, when Milton Friedman declares that “there is no such thing as a free lunch,” he echoes Antoine Lavoisier, the eighteenth-century French tax collector who invented the Law of Conservation of Matter. With this Law in mind, political economists, both Marxist and neoclassical, came to believe that there was “intrinsic equivalence” in production and exchange. Abstract labor and utility, like all matter, could neither disappear into nor be created out of thin air. For Marx, who approached the process from the input side, the commodity’s value was transformed labor: the live abstract labor socially necessary to produce the capital reappeared as dead abstract labor in the newly produced capital. Similarly for the neoclassicists, who view the process from the output side: as the quantity of capital depreciates, the lost utils resurface—albeit suspended until they are consumed—in the goods and services being produced.<sup>6</sup>

The answer of both theories to the question “what is capital?” lies in this transformation. In both cases, the pecuniary appearance of capital is merely the mirror image of its material substance, made of utils or abstract labor. The financial liabilities on the right-hand side of the balance sheet derive their value from—and in the final analysis, are equivalent to—the productive assets on the left-hand side.

This belief makes it clear why both definitions of capital *have to* exclude power. Given that the institutions of power are qualitative, not quantitative, and since power is considered external to the productive substance of capital, it follows that power can only be “re-

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<sup>6</sup> Of course, in each theory input or output are just the starting point, and the conservation continues through subsequent cycles in the input-output chain.

lated" to capital from the "outside." It can never make it into its basic definition.

*Utility, Abstract Labor, or the Nomos?*

But what if this belief is wrong? What if intrinsic equivalence does *not* exist? In order to know one way or the other, we need to be able to measure utils and labor values. We also need to identify equilibrium (since equivalence does not work in disequilibrium). And, unfortunately, political economists have been able to do neither.<sup>7</sup>

According to Thorstein Veblen, this inability lies in their failure to comprehend the holistic quality of the social process in general and the "industrial system" in particular. In his view, which resembles both Alfred Whitehead's process philosophy and David Bohm's hologramic metaphors, social production is a qualitatively changing "joint process," interleaved over time and space.<sup>8</sup> There is no way to objectively unbundle this process into a *quantitative* input-output schema, even on paper, and therefore no way to explain prices by abstract labor or utility.

To illustrate the unbundling problem, try to imagine the entire process, from start to finish, of producing a pharmaceutical drug, a

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<sup>7</sup> In order to denote the "substance" of capital in universal units, political economists would need to overcome three obstacles, all of which are insurmountable. First, they would have to explain how we could convert qualitatively different outputs into universal utils (in the neoclassical case), or qualitatively different forms of concrete labor into homogenous units of abstract labor (in the Marxist case). Secondly, they would have to identify the particular utils produced by a particular type of capital (neoclassical), or the exact number of abstract labor hours that went (on average) into making a particular type of machine (Marxist). And, thirdly, they would have to show that the capital measurements they came up with were indeed unique; in other words, that the "substance" of a *specific* factory, when measured as "capital," has one quantity, and *one quantity only*. On the impossible conversion of quality into quantity, see for example Castoriadis (1984) and Nitzan (1989). The issue of input-output indeterminacy was pointed out by Steadman (1975; 1977). The problem of providing a unique measure of "real" capital was first identified by Veblen (1975; 1961c) and Wicksell (1935), and later gave rise to the "Cambridge Controversies" of the 1950's and 1960's (cf. Robinson, 1953–54; Sraffa, 1960; Harcourt, 1969).

<sup>8</sup> Veblen has been forgotten by many older political economists and is totally unknown to most younger ones. His two key books, *The Theory of Business Enterprise* (1975) and *Absentee Ownership* (1967), should be made required reading for every student (and teacher) of political economy. On process philosophy, see Whitehead (1978). For the metaphoric use of holograms, see Bohm (1980) and Bohm & Peat (2000).

modern automobile, or a Hollywood movie. Even if we could somehow observe and measure utils or socially necessary abstract labor, still, is there a way of knowing which input “contributes” how much to which output?

Conventional analyses of value and price, whether Marxist or neoclassical, usually ignore free inputs and outputs. This exclusion presents a serious conceptual problem. Many inputs and outputs are free not because they are gifts of nature or because they do not “contribute” to production, but because their potential owners lack the power or desire to commodify them.<sup>9</sup> But, then, if power affects what is included in and excluded from the input-output map, how could it be ignored?

Do we even know all the “inputs” and all the “outputs”? What is the starting point of the production process—say, of an automobile? The excavation of the raw materials? The design of the automobile? The invention of the computer used in that design? The invention of the computer language? Of binary mathematics? Of the zero? How far and to what degree does any one input affect the various possible outputs? For instance, how does modern chemistry simultaneously feed into the production of drugs, automobiles, and movies? What other production processes does chemistry feed into? Can we measure the “extent” of its separate impacts?

The truth is that we do not know the answers to these questions, and—if Veblen, Whitehead and Bohm are right—we *cannot* know. We cannot unbundle a package whose separate components could not be specified to begin with.<sup>10</sup>

So we are back to square one, if not square zero. We still do not know what makes something capital and what determines its magnitude in dollars and cents. Worse still, now we no longer have the principle of intrinsic equivalence to build on. Is this rejection not

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<sup>9</sup> Compare the IBM personal computer that was made freely available for cloning with the rather expensive “invention” of Microsoft Windows (Microsoft commodified Windows after taking the idea from Apple, gratis); compare the free domestic labor of women with their paid labor in the office; compare free university education in Sweden with costly post-secondary schooling in the United States; or contrast the free pollution of factories prior to the Kyoto Accord with their commodified effluence after the Accord’s implementation.

<sup>10</sup> In that sense, Neo-Ricardians attempt to show that the internal contradictions of neoclassical production functions and Marxist value equations were superfluous (cf. Sraffa, 1960; Steedman, 1977). These latter critiques were logically brilliant and politically expedient. But from a Veblenian perspective they were redundant: in practice, the equations they sought to criticize *could not even be written*.

detrimental to the very possibility of political economy? By giving up the material basis of capitalism, are we not cutting the branch we sit on? Indeed, is there anything else—other than utility or labor value—with which we can explain the quantitative order of prices, exchange and distribution?

The short answer is “yes.” There is an alternative. According to Cornelius Castoriadis (1984), this alternative was articulated some 2,500 years ago, by Aristotle. Equivalence in exchange, Aristotle argued, came not from anything intrinsic to commodities, but from the *nomos*. It was rooted, says Castoriadis, not in the material sphere of consumption and production, but in the broader social-legal-historical institutions of society. It was not an objective substance, but a human creation.<sup>11</sup>

And when we think about this question without theoretical blinders, this loose determination is not that difficult to fathom. Consider the ratio between the price of petroleum and the wages of oil rig workers; between the value of Enron’s assets and the salaries of accountants; between General Electric’s rate of profit and the price of jet engines; between Halliburton’s earnings and the cost of “re-building” Iraq; between Viacom’s taxes and advertisement rates. Why should we insist that these ratios are somehow determined by relative utility or relative abstract labor time? Why should we believe in quanta that could not be shown to exist, and that no one—even those who need to know them in order to set prices—has the slightest idea of what they are? Is it not possible that these ratios are simply the outcome of social struggles and cooperation?

Most political economists prefer to steer clear of such a loose determination. The ideological stakes are simply too high. If prices and distribution were not determined by objective productive contributions, neoclassicists would have nothing with which to explain income and justify profit. Similarly for Marxists: without labor values there is no objective basis to condemn capitalist exploitation.

Unfortunately, and as already noted, this insistence on objective determination is mostly a formality. In practice, political economists are entirely dependent on a very loose determination of prices and distribution. In the neoclassical case, this dependency is evident when economists set up perfectly competitive equilibrium

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<sup>11</sup> We are deeply indebted to Akiva Orr for introducing us to the work of Cornelius Castoriadis. Orr carries on the spirit of Castoriadis—both in his activism and in his profound writings on philosophy, history, science, and democracy ([www.autonarchy.org.il](http://www.autonarchy.org.il)).

models—and then fit them to reality with the generous help of endless “distortions” (in the know-all language of the news agencies: “oil prices have risen *because* of excess demand from China”; and a day later, “*despite* excess demand from China, oil prices have fallen amid easing security concerns at Ras Tanura”). Marxists do the very same thing when they first articulate the fundamental laws of expanded reproduction and immediately violate them with the endless mischief of “force,” “manipulation,” and “accumulation by dispossession.” Now, this mixture of hard and loose determination would be scientifically acceptable if we could somehow draw the line separating the “objective” laws from their “distortions.” But neither neoclassicists nor Marxists can do so, even on paper: the basic units of utility and abstract labor underlying these laws are unobservable, directly or indirectly; and even if they were observable, there is no inherent reason why human beings would have to obey any “objective” law based on such units.

This critique does not imply social chaos. Far from it. Society is not a formless mass and its history is not a mere collection of accidents. There are rules, patterns, and a certain logic to human affairs. But these structures are created, articulated, and instituted not from the outside, but by *society itself*. They are manifested through religion, the law, science, ideology, conviction, habit, and force. Although embedded in the *physis*, they are all creatures of the *nomos*. Whether imposed by rulers for the sake of power or crafted by the demos for their own happiness, they are all made by human beings.

The above considerations are crucial for our purpose here, for, if we start from the *nomos* rather than utility or labor value, we end up with a completely different concept of capital, a radically different understanding of accumulation, and new ways to interpret capitalist development.

#### IV. CAPITAL AS POWER

##### *The Unit of Order*

Every order—in society, as in nature—is articulated, or generated, through categories and forms.<sup>12</sup> The most potent of these are

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<sup>12</sup> We use “order” here to denote a pattern. Order in this sense can be static or dynamic, stable or unstable, and it carries no normative connotations.

numbers. The greater our ability to use numbers, the more accurate and comprehensive our capacity to articulate order. In capitalism, the fundamental numerical unit is price. In principle, this unit can be assigned to anything that can be owned. In that sense, everything that can be owned—from natural objects, through produced articles, to social organizations, ideas, and human beings—can also be quantified. Moreover, the quantification is uniform across time and space. Prices in Europe of the Middle Ages are readily comparable to prices in India of the twenty-first century. This uniformity enables ownership to be intricately interrelated, or ordered—and with great precision.

The comprehensive reach and uniformity of the price system has made capitalism the most ordered society ever. In no prior epoch have numbers been so extensively and consistently used to describe, organize, and shape human behavior. Prices enable entirely new ways of re-ordering society. What previously required military conquest now can be done through currency devaluation; what once necessitated religious conversion today takes a mere shuffle of a few computer records we call portfolio investment. Furthermore, the highly malleable nature of prices—i.e., their remarkable ability to go up and down—makes capitalism by far the most *dynamic* of all historical orders. And, indeed, in capitalism *change* itself has become the key moment of order.

### *The Pattern of Order*

Now, price is merely the *unit* with which capitalism is ordered. The actual *pattern of order*—namely, the way in which prices are structured relative to one another—is governed by the process of *capitalization*, that is, by the discounting into present value of expected future earnings. Capitalization is the central institution and key logic of the capitalist *nomos*. It is the “generative order,” to use David Bohm’s term, through which the capitalist order, denominated in prices, is created and recreated, negotiated and imposed.

Under the price system, the accumulation of capital occurs through capitalization. The form of capital is the money value of an asset. In this sense, capital is finance, and *only finance*.<sup>13</sup> Now, as

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<sup>13</sup> Capitalists can own production facilities, retail chains, or banks, but that does not make their *capital* “productive,” “commercial,” or “financial.” As we argue below,

we have already seen, the monetary magnitude of capital cannot be related to the “quantities” of machines, productivity, labor, or utility. To recap, contrary to conventional theory, these are pseudo-quantities; they do not have a clear meaning and hence they cannot be examined directly or indirectly; they cannot be reduced to universal units and therefore cannot be aggregated; and capitalists neither know nor care what they are, so they cannot be used to explain the magnitude of capital.

This theoretical mismatch is evident, if only intuitively, in everyday reality. Consider Microsoft. In 2003, the company employed only 55,000 workers, had very few machines, structures and equipment worth slightly more than \$2 billion (in historical cost), and sold a fairly mediocre set of products. Its market capitalization in that year was \$293 billion. Now contrast this with General Motors. In 2003, General Motors had a huge work force of 326,000 employees, it owned countless plants and plenty of equipment worth over \$72 billion, and it boasted a highly complex production process. Its market capitalization in that year was a mere \$30 billion.<sup>14</sup>

Microsoft’s production seems miniscule relative to General Motors’, yet its value on the market was ten times larger. Even if we add to market capitalization the book value of outstanding debt, Microsoft’s overall worth to its owners and debtors was still disproportionately large: \$312 billion compared to \$453 billion for General Motors.

Political economists explain such discrepancies in many different ways. One popular method is to attribute the discrepancy to “technology,” “know-how,” or “human capital”—all mysterious quantities that nobody can measure and therefore can easily be used to fill any gap (in this case, Microsoft’s higher capitalization must be due to its more ample “human capital” and “higher technology”). But sometimes the differences go the other way, with “low tech” companies enjoying much higher valuations than “high tech” ones. So a second solution is to resort either to Hume’s classical dichotomy between the “real” and “monetary” spheres, or to Marx’s distinction between “actual” and “fictitious” capital. Finance, we are told, although ultimately determined by the reality of means of produc-

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the articles capitalist own relate to their capital only insofar as they bear on power (for more on the issue, see Nitzan & Bichler, 2000; Bichler & Nitzan, 2004).

<sup>14</sup> Data in this and the following paragraph are from Compustat via Wharton Research Data Service (WRDS).



tion, gets “distorted” by the fiction of speculation and other imperfections. It is only when the “bubble” gets deflated, goes the argument, that finance is reduced, if only temporarily, to the “true” value of the “underlying” capital.

This “delinking” thesis is wide of the mark. As we shall see later, capitalization has a lot to do with production, broadly defined; but it has nothing to do with the *mythical quantities* of production. The notion of speculative bubbles that delink finance from its true productive value is meaningful only if such “true” value exists. But this “true” value is a pseudoquantity. It does not exist, and therefore it cannot be “distorted,” “misrepresented,” “inflated,” or “delinked” from. The story is completely different.

Begin with the process by which market value is determined. Most generally, the money magnitude of an asset is a capitalization of earnings. It is equal not to the owned material and immaterial objects, but to the present value of the earnings the asset is expected to generate. The actual computation depends on three basic magnitudes: (1) the expected earnings; (2) the risk factor associated with those expected earnings; and (3) the normal rate or return used to discount the earnings to their present value. A simplified expression is illustrated by the following equation:<sup>15</sup>

$$\text{capitalization} = \frac{\text{expected earnings}}{\text{risk} \times \text{normal rate of return}}$$

Expected earnings is not a single number, but an income stream that can follow different temporal patterns (discounted accordingly). Risk refers to the extent to which capitalists believe they can predict the course of these earnings; the standard basis for such judgment is the temporal variability of earnings, with higher variability typically considered more risky. Finally, the normal rate of return is what capitalists believe they can get by investing in so-called “riskless” assets, such as U.S. government bonds.<sup>16</sup>

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<sup>15</sup> This simple formula pertains to a perpetuity with no end value. Capitalization and expected earnings are measured in dollars (or any other currency), whereas the risk factor and the normal rate of return are noted in decimals.

<sup>16</sup> “Risklessness” is commonly used to denote the perception of minimum risk, not the absence of risk. It is the “benchmark of order,” so to speak, the belief that there is some minimum level of instability to which capitalist earnings could be reduced. Note that risk is a highly contentious concept that is often conflated, erroneously,

All three magnitudes, of course, are highly conjectural. They depend on conventional facts, but also, and often very much so, on the collective outlook of buyers and sellers. The latter outlook is certainly prejudiced, biased, and skewed by circumstances, habits, and convictions—but it is also a crucial aspect of the capitalist *nomos*. Capitalization is the basic building block of accumulation, the fundamental formula that all capitalists believe in and nearly everyone else accepts as “natural.” Conjectures and beliefs built into it, therefore, become an external, “objective” force. As Thorstein Veblen would have put it, they become a force no less real and imposing than any of the so-called “tangible facts.”

This framework tells us where to start looking. Microsoft’s capitalization is ten times larger than General Motors’ because owners expect it to earn ten times more, to have earnings that are ten times less risky, or some combination of the two (the normal rate of return, being equivalent in both cases, has no impact on the difference).

The same principle holds true for any other asset. The capitalization logic determines the present value of a worker (the value of her mortgaged home, car, and line of credit together being dependent on her expected lifetime earnings and the risk of her being laid off). It determines the present value of a government (the amount of its bond issues being dependent on its ability to levy taxes and the social risks that come with such levies). And it determines the present value of any stock of goods (being equal to their one-shot resale price, discounted for the time they will be sold and the risk that they may not).

Clearly, then, in order to explain capitalization we need to look not backward to the “productive” articles that supposedly make up the asset, but forward to what the asset can earn and at what risk.

### *Capitalization of Power*

Every social order is created through a certain mixture of cooperation and power. In Athenian democracy cooperation was paramount; in capitalism, power is the governing principle. The primacy of power in capitalism is rooted in the centrality of private ownership. “Private” comes from the Latin *privatus*, meaning re-

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ously, with uncertainty (cf. Thünen, 1966; Keynes, 1921; 1937; Knight, 1921). We hope to develop a power analysis of risk and uncertainty in our future work.

stricted, and from *privare*, which means to deprive. In the words of Jean-Jacques Rousseau: “The first man who, having enclosed off a piece of land, got the idea of saying ‘This is mine’ and found people simple [minded] enough to believe him was the true founder of civil society” (Rousseau 2001: Part II). The most important feature of private ownership is not to *enable those who own*, but to *disable those who do not*. Technically, anyone can get into someone else’s car and drive away, or order the sale of all of Warren Buffet’s shares in Berkshire Hathaway. The sole purpose of private ownership is to prevent the other from doing so. In this sense, private ownership is wholly and only an institution of exclusion, and institutional exclusion is a matter of organized power. Exclusion does not have to be exercised. What matters is the *right* to exclude and the *ability to exact terms for not excluding*. These “terms” are the source of accumulation.

The actual process of exclusion is *qualitative* and potentially *multifaceted*; its ultimate evidence, *quantitative* and *uniform*. We can examine and describe the many individual facets of exclusion, but the only way to “aggregate” these qualitatively different facets is by examining the distribution of income (earnings) and its temporal trajectory (risk). And since both earnings and risk are a matter of exclusion and therefore power, it follows that capital, being the present value of risk-adjusted earnings, represents the *capitalization of power*. Ultimately, what gets capitalized is the *power to order society*. Further, and crucially, since power and distribution are inherently *differential*, we cannot talk about “absolute” accumulation. Accumulation is always and everywhere a differential process, a quantitative representation of the power of owners relative to others—others who can exclude plenty, others who can exclude little, and, finally, those who can exclude no one and therefore own nothing. (The notion of differential accumulation is central to our argument, but we need to deal with other issues before returning to it in Section VI.)

Clearly, not every aspect of power in society gets capitalized. It is only insofar as power *does* affect earnings and risk, and only insofar as this impact is considered *sufficiently significant and non-transitory*, that the risk-adjusted income and the power behind it get discounted. In capitalism, though, these prerequisites are remarkably inclusive and constantly expanding. In this way, any power arrangement, institution, and process that systematically affects the flow

and temporal pattern of earnings is a potential facet of capital. Concrete examples include military spending and managed stagflation in Israel, apartheid laws and democratization in South Africa, the pendulum of inflation and corporate amalgamation in the United States, organized crime in Russia and IMF bailouts in Asia, and “energy conflicts” and “peace dividends” in the Middle East. Other illustrations, pertaining to the more universal processes of power, include the struggle over the nature of labor and work, the creation of “wants,” intellectual property rights, protectionism, organized religion, and the systematic use of violence. These processes and institutions all bear on earnings and risk; and once their impact is discounted by investors, they *become* capital.

This encompassing process, the transformation by which capital simultaneously “subsumes” and “quantifies” other forms of power, is perhaps the broader meaning of capitalist development. Examining this development, therefore, requires that we place power at the *center* of analysis, and that we do so *from the very start*. We need to think not of capital *and* power, but of capital *as* power. Once we accept this requirement, “politics” and “economics” appear not as distinct spheres of human activity and consciousness, but as an artificial fragmentation that needs to be overcome.

The way to articulate and historicize the capitalization of power is necessarily speculative. In Marxist and neoclassical theories there is an “equation,” with capital measured in money on the one side, and its determinants denominated in abstract labor or utility on the other. Both sides of the equation are assumed to be quantitative and therefore comparable. By contrast, from the viewpoint of capital *as* power the equality is only metaphorical. The financial form of capital is quantitative, whereas the institutions and processes of power are qualitative. The only way to “equate” them is speculatively: we need to tell a convincing story that contrasts the quantitative trajectory of accumulation on the one hand with the qualitative development of power on the other. This juxtaposition is admittedly conjectural—but, then, that is precisely how the quantitative capitalist *nomos* is conceived, articulated, and imposed by the ruling capitalist class on the rest of society. The numerical capitalist order is created not objectively from the outside, but inter-subjectively from the inside, by human beings. As scientists, we try to understand how.

The fact that this determination is partly speculative is no invitation for postist charlatans. Arbitrary “narratives” cannot go very far here. Since the subject of inquiry is the structured *nomos*, the purpose is still to produce a framework that is open to change—yet systematic, comprehensive, operational, robust, predictive and, above all, true to the democratic principles of proof and refutation.

*The Capitalist Order and Humane Society: An Interpolation*

A crucial note: the study of capitalization does not, and cannot, provide a *general theory of society*. Capitalization is the language of dominant capital. It embodies the beliefs, desires, and fears of the ruling capitalist class. It tells us how this group views the world, how it imposes its will on society, how it tries to mechanize human beings. It is the architecture of capitalist power.

This architecture, though, tells us very little about the human beings who are subjected to its power. Of course, the pundits observe their “behavior,” their “reaction” to capitalist threats, their “choice” of capitalist temptations. Yet they know close to nothing about their consciousness, awareness, thoughts, intentions, imagination, and aspirations. To paraphrase Cornelius Castoriadis, the human kind is like a “magma” to us, a smooth surface that moves and shifts.<sup>17</sup> Most of the time its movements are rather predictable. But under the surface lurk autonomous qualities and energies. The language of capitalist power can neither describe nor comprehend these qualities and energies. It knows nothing about their magnitude and potential. It can never anticipate when and how they will erupt.

Consider that none of the pundits—communist or anticommunist—foresaw the collapse of the Soviet bloc (although, in retrospect, the victory of liberalism was of course “inevitable”). Similarly with the May 1968 revolution in France. This was arguably the most important revolution of the twentieth century. And yet, even a few days before its explosion, no sociologist—conservative or radical—had a clue of what was coming (*Paris: May, 1968*, 1986; Orr, 2003). The story repeats itself with the first Palestinian *Intifada* that started in 1987. The uprising took everyone by surprise,

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<sup>17</sup> Castoriadis (1987: ch. 7) develops the ontology of the magmas.

including the critical orientalists and the orthodox PLO establishment. The list goes on.

These revolutionary instances cannot be easily theorized, and for a good reason. They are rooted in the *original* spark of free human creativity. Originality and creativity cannot be modeled or reduced to historical laws of motion. They cannot be systematically predicted. They do not follow a clear pattern. They are unique.

Karl Marx, the first to investigate the dynamic architecture of capitalism, tried to fuse the two movements of power and resistance to power into a single language. For him, the power of capitalists to accumulate and the political struggle of workers against that power could both be derived from and analyzed by one basic logic: the labor theory of value.

In our view, this fusion is impossible to achieve. It is impossible to impose the logic of labor (and of human activity in general) on capitalists. We cannot denominate the pecuniary architecture of capitalization in homogenous units of abstract labor. Capitalization and productivity/creativity are two distinct processes, each with its own separate logic. The destructive clash of these two processes is the engine of the capitalist dialectic, but the dialectic itself cannot be understood with one common language.

Instead, we prefer to imagine two general entities. The first entity is the *capitalist order*, whose pattern is imposed on society. The gyrations and development of this order can be subjected to a systematic, quantitative theory of power. The second entity is a stealth *humane society*. This society exists mostly as an unknown potential. Usually it is dormant and therefore invisible. Occasionally, though, it erupts, often without warning, to challenge and sometimes threaten the institutions of capitalist power. These eruptions—and their consequences—do not follow a pre-set pattern. They cannot be systematically theorized.

For this reason, we do not pretend to offer a general theory of capitalist society. We limit ourselves to the study of the *capitalist order* only, the order of those who rule. To rule means to see the world from a singular viewpoint, to be locked into a unitary logic, to be subservient to your own architecture of power. Dominant capital cannot deviate from the boundaries of this architecture, even if it wants to. Its individual members are forced to accept the very logic they impose on the rest of humanity. And the more effective they are in imposing that logic, the more predictable they them-

selves become. This is why their world could be theorized and to some extent predicted.

Over the past century, the power logic of capitalism has been incarnated in the process of differential capitalization; that is to say, in the belief that there is a “normal rate of return” and that capitalists are obliged to “beat” it. This is the gist of the new capitalist cosmology. Instead of the Holy Scriptures, we now have the universal language of business accounting and corporate finance. The power of God, once vested in priest and king, now reveals itself as the power of Capital vested in the “investor.”

And as the capitalization of power spreads and penetrates, the world seems increasingly “deterministic.” The determinism of capitalization is now the “natural state of things,” the benchmark against which one can estimate “deviations,” “distortions,” “risk,” and “return.” It is a logic that looks unquestionable to those who rule and omnipotent to those who are being ruled.

But this determinism of capitalization has nothing to do with “laws of nature,” or the “inevitable” progression of history. It is the *determinism of the ruling class, and only of the ruling class*. It works only insofar as the ruling class rules. Admittedly, that happens most of the time. However, human beings do have the capacity to understand the fictitious nature of this “determinism.” And when they realize that the “rules” are imposed on them by *other* human beings, determinism disappears, replaced—if only for a historical instant—by the humane promise of autonomy-democracy-philosophy.

## V. PRODUCTION AND STATE

### *Accumulation and Production*

Clearly, as an encompassing power process, accumulation cannot be exclusively a matter of production. That is not to say, however, that that production does not matter for accumulation. Far from it. Production—understood loosely as the organization of labor for the conversion of energy/matter into useful (and harmful) articles—is a central facet of social power under capitalism. This power bears on both earnings and risk, and therefore significantly affects the course of accumulation.

However, the link between production and accumulation is rather different from what conventional theory will have us believe. Neoclassicists and Marxists both tend to think of the two processes as closely related if not synonymous. The logic is simple: the higher the growth, the larger the potential for plowing back productive resources into investment, and the greater the investment, the faster the accumulation. When the economy booms, goes the conventional creed, so does capitalism. When growth falters, accumulation suffers.

As should be clear by now, strictly speaking this logic is meaningful only insofar as the inputs, the outputs, and the capital goods are all made of the same universal units (abstract labor or utility). Otherwise, there could be no quantitative link between them and the logic becomes meaningless. But even if we could somehow proxy the growth process—for instance, by using as rough indicators employment, unemployment, or the expenditure of energy—once we accept that capital itself represents not material artifacts but the capitalization of power, there is no longer any reason for its accumulation to be positively related to growth.

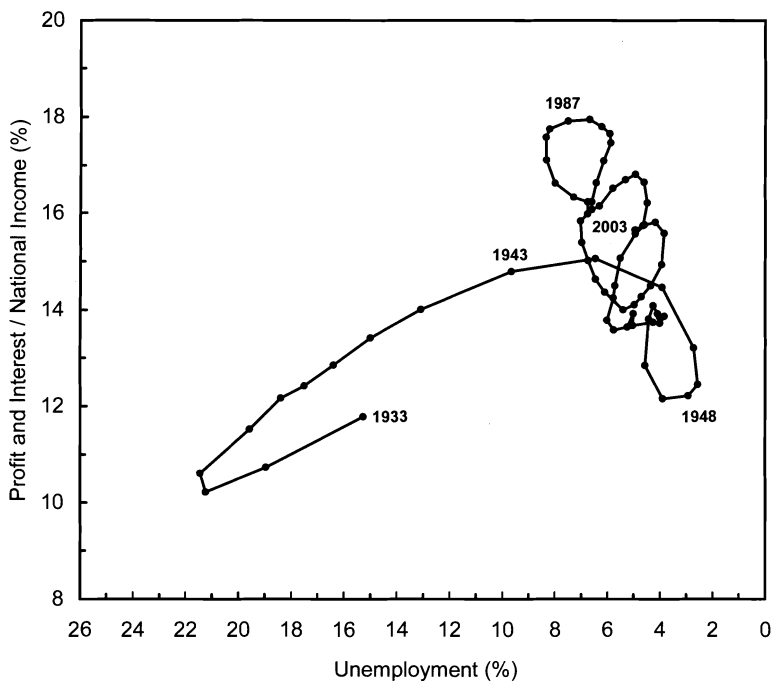
And indeed, in reality the link between accumulation and growth (as proxied by standard neoclassical accounting) is nonlinear and can be positive as well as negative. To explain why, consider the following extremes. A capitalist society whose resources are entirely idle obviously will generate no profit. But a capitalism whose resources are fully and permanently employed is equally problematic—at least for the capitalists. This latter society may generate plenty of goods and services, but it also leaves capitalists with no discretion and hence makes them redundant. Since capitalists in this hypothetical society *have to* maintain full employment, by definition, they lose their ability to exclude; with no exclusion there is no power; and with no power there are no earnings. For this reason, the “ideal,” Goldilocks state of capitalist societies is some measure of unemployment and undercapacity utilization.

The Goldilocks principle receives a rather stark confirmation from the recent history of the United States, illustrated in figure 1. The chart contrasts the level of unemployment on the horizontal axis (inverted scale), with the national income share of capitalist income (profit and rent) on the vertical axis. The relationship is clearly nonlinear. Very high unemployment (during the Great Depression) and very low unemployment (in the postwar welfare



state) were bad for business. Some unemployment—specifically 5–8%—was very good for business. At this rate of unemployment the share of business in national income was the greatest. Fittingly, economists have come to describe this range as the “natural rate of unemployment.”

**Figure 1**  
Unemployment and Capital Income in the United States



Note: Series are smoothed as three-year moving averages.

Source: U.S. Department of Commerce through Global Insight (series codes: INTNETAMISC for interest; ZBECON for corporate profit; YN for national income; RUC for unemployment).

Marx himself was clearly aware that unemployment and recession were means of power in the hands of the capitalist class, in that they helped reduce wages and discipline workers. But although expedient in the class struggle, these measures undermined growth and expanded reproduction, reduced the amount of surplus value, and therefore hindered accumulation according to his theory. It was only with Thorstein Veblen that we get the first sys-

tematic recognition of power as the basis of capital: a theory of accumulation rooted not in growth, but in “strategic sabotage”; the argument that capital represents not the ability to produce, but the right to “incapacitate”; and the notion that without this “conscious withdrawal of efficiency,” as Veblen colorfully puts it, there could be no profit to begin with and therefore no accumulation at all (cf. 1975; 1961a; 1961b; 1967).

The development of capitalism before and after Veblen’s death seems to confirm his claims. Whenever population expands faster than productive capacity (roughly proxied), rapid growth usually does not compromise the power of capitalists and therefore does not hinder their earnings. This was the situation in the United States until the 1890’s and in East Asia until the early 1980’s. However, when productive capacity starts to expand “too fast” relative to population growth, capitalists are forced to become vigilant lest they lose their right to incapacitate. And indeed, since the early 1900’s, with U.S. population growth slowing considerably and productivity accelerating, “business as usual” in that country was accompanied by an average unemployment rate of 7% (5.7% without the Great Depression). The same power logic kicks in elsewhere when similar conditions emerge. In both Japan of the late 1980’s and East Asia of the late 1990’s, the combination of declining population growth on the one hand and fiercely competitive expansion of productive capacity on the other led to a massive decumulation of capital. By contrast, in Russia of the 1990’s, a huge drop in industrial production (70% according to the IMF), orchestrated by a new and fairly cohesive class of capitalist oligarchs, enabled the accumulation of massive fortunes. In all cases, production mattered a great deal, sometimes positively, at other times negatively. The only way to understand the difference is to look at power.

### *Capital and State*

One of the key hurdles in developing a power theory of accumulation is the habit of separating state from capital. In this separation, capital, denominated in utils or abstract labor, is associated with the “stern laws” of consumption and production, whereas the state is articulated in the “voluntarist” terms of command and power. From the beginning, then, power is seen to lie within the state.

Power could be related or unrelated to accumulation, but the two concepts themselves, by definition, are inherently *distinct*.

This distinction has become problematic, even for mainstream scholars. During the 1970's, when statism was riding high in the halls of academia, Robert Gilpin (1975) distinguished states and markets (i.e., capital) based on their goals.<sup>18</sup> The former, he said, was seeking power, the latter wealth. By the late 1980's, though, when governments no longer seemed omnipotent, he changed his mind, arguing that states and markets (read capital) shared the dual goal of power *and* wealth, and that the difference between them lay chiefly in the means they used to achieve this goal (Gilpin, 1987). Of course, although markets (meaning capital) could seek power, the state, by virtue of its monopoly over organized violence, was still paramount.

Marxists have developed a far more nuanced analysis of this interaction.<sup>19</sup> Most tend to agree that the capitalist state, by necessity, has a pro-capitalist bias. Beyond this point, however, there is significant disagreement. One area of contention is the extent to which state officials are "autonomous" from the overall "logic" of accumulation, as well as from pressures exerted by particular interest groups. Another is whether the state is "developmental" or "predatory" (similarly to capital, which could be "productive" and useful, or "speculative" and wasteful). These characterizations, though, are largely static; the really interesting question concerns the way in which the nature of state and capital has changed over time.

This question has been addressed by Giovanni Arrighi and others working with him (Arrighi, 1993; Arrighi & Silver, 1999). Examining the intertwined evolution of state and capital from the Venetian city-states till the present, they argued that power has gradually shifted from organizations based on *territory*, primarily the state, to ones with access to *resources*, mainly capital. The shift itself was highly dialectical, with a basic "contradictory dependency" running between the two entities. Business agencies, because of their nonterritorial nature, have grown "ever more dependent on,

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<sup>18</sup> The literature on state and society often substitutes "market" for "capital," and then goes on to imply that the "market" can have a goal, as if it were a purposeful organization or simply a fetish.

<sup>19</sup> For a wide ranging critical analysis of capitalist state theory, see Jessop (1990). For a shorter review, see Das (1996).

but also ever more subversive of, the power of the hegemonic state" (Arrighi, Barr & Hisaeda, 1999: 98).

This long historical experience of contradictory dependency, Arrighi et al. argued, could be useful in understanding epochal leaps in the underlying nature of both state and capital. Initially, a new hegemonic state would typically support and promote its own business institutions. However, sooner or later the hegemon's power and the monopolistic profit of its companies would begin attracting outside contenders, as well as generating internal inequities and strife. In parallel, business concerns seeking to break their spatial barriers would increasingly subvert the very territorial power on which they rely.

Historically, the consequence of these mounting contradictions was global instability and, eventually, systemic chaos. The resolution of such systemic chaos, at least so far, always involved the emergence of a new hegemon—although, according to Arrighi, that latter aspect was less important. The more crucial feature of the transition was the emergence of a *qualitatively new* state-business formation, one which helped overcome the earlier contradictions, and which, through successive transformations, gradually worked to shift the locus of power from territoriality to accumulation.

The argument is intriguing, and certainly it takes us further than most accounts in trying to understand the historical interaction of state and capital. And yet, even here, the duality persists. State and capital, although constantly changing through mutual interaction, still are seen as *fundamentally distinct*, and it is this basic distinction that we need to rethink. The question is twofold. First, does the state merely "affect" capital, or can we think of the state itself as being a facet of capital? And, secondly, has capital itself become a form of state? We consider these two aspects in turn.

### *The State in Capital*

The first to suggest that the state was integral to capital was no other than Karl Marx. In general, Marx emphasized the primacy of production in the emergence and development of capitalism. But, then, toward the end of his first volume of *Capital*, in a section titled "Genesis of the Industrial Capitalist," we find a strikingly different interpretation. In contrast to his otherwise bottom-up view, in which the state emerges to give an already-developed capitalism

its universal form, here he offers a top-down explanation, with accumulation seen as emerging from *within* the state. The genesis of capitalism, Marx writes in this section, is primitive accumulation, and primitive accumulation is largely the working of the state:

The different momenta of primitive accumulation distribute themselves now, more or less in chronological order, particularly over Spain, Portugal, Holland, France, and England. In England at end of the 17th century, they arrive at a systematic combination, embracing *the colonies, the national debt, the modern mode of taxation, and the protectionist system*. These methods depend in part on brute force, e.g., the colonial system. *But they all employ the power of the State*, the concentrated and organized force of society, to hasten, hothouse fashion, the process of transformation of the feudal mode of production into the capitalist mode, and to shorten the transition. Force is the midwife of every old society pregnant with a new one. *It is itself economic power* (Marx, 1909: I, 823–24, emphases added).

Within this constellation, Marx further identifies the formative role of credit, particularly public debt:

National debts, i.e., the alienation of the state—whether despotic, constitutional or republican—marked with its stamp the capitalist era. . . . Public credit becomes the credo of capital (1909: I, 827).

In short, the capitalist state, at least according to what Marx tells us here, is neither a historical latecomer, nor an added complication to an otherwise pure notion of capital. Instead, it is rather an *integral aspect of accumulation*, and was so from the *very start*.

Taking this insight one step further, we could argue that the two institutions—state and capital—may be better viewed not separately, but as manifestations of the same power process. Initially, their “fusion” was manifested in government bonds: the *first systematic capitalization of power*, namely, the power of government to tax. And since this power was backed by institutionalized force, the gov-

ernment bond came to represent *a share in the organized violence of society*.<sup>20</sup>

Taken in and of themselves, taxation and the organized violence behind it are of course ancient, going back to the early use of armies to collect agricultural tribute.<sup>21</sup> Subsequently, taxation was legitimized in custom and law, so that the use of naked force became less necessary. But it was only with the emergence of capitalism that this power was routinely packaged as a financial asset, discounted as vendible bonds on the open market.

The origin of this capital-state “bondage” is not hard to identify. The intensification of military conflict, initially in the Italian city-states of the fifteenth century and, later, with the emergence of the Westphalian state system in the seventeenth century; the growing mechanization of warfare; and, finally, the substitution of hired armies for feudal serfs—together made “cash flow” a burning issue for state rulers. These rulers could, of course, get the money through taxation; but tax collection was a lengthy process, whereas the demands of warfare were urgent. In today’s language, we would say that these rulers were strategically solvent but tactically illiquid. The solution was to turn to *haute finance* with its easily accessible stash of money, and as the arrangement proliferated the nature of power was transformed. Instead of the rigid feudal structure of multiple “protections,” there emerged the anonymous and highly flexible bourgeois “bond” of capital and state.

There is in fact nothing very “primitive” about primitive accumulation. Indeed, with time, the capital-state symbiosis has only grown stronger. The government bond market has become the heart of modern finance. It provides the biggest and most liquid security market; it offers a vehicle for both fiscal and monetary policy; and it reflects, through its benchmark yield, the universal normal rate of return. But the capitalization of state power has gone much farther than that. Governments have numerous powers other than taxation—including military spending, subsidies, industrial policies, war making, tariffs, protection of private property, patents and copyrights, propaganda, labor laws, macroeconomic policies, and policing, to name a few—and these powers all bear on

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<sup>20</sup> For a comprehensive Weberian analysis of the rise of the modern state and its dual anchor in war and taxation, see Tilly (1975) and Tilly & Blockmans (1994).

<sup>21</sup> Although state revenues are no longer collected in kind, the fiscal year still starts in April, to remind us of springtime tax expeditions in antiquity.

the differential level and temporal pattern of capitalist income. In fact, it is hard to think of a single aspect of the modern state that does *not* bear on the distribution of income in general and of capitalist income in particular, just as it is difficult to find a single corporation whose differential earnings are not affected by state power.

Given that these power features of the state all influence differential capitalist earnings and risk, they are discounted, if only implicitly, into corporate stock and bond prices. In other words, *a significant proportion of all private property is, in fact, a "capitalization of the state."* The precise magnitude of this proportion cannot be determined, of course; but that inability itself is an indication of how inseparable the two institutions have become.

A few examples should illustrate this symbiosis. Consider Microsoft. It does not matter whether Microsoft engineers "produce" its software from scratch or "borrow" it entirely from others, gratis. The owners of Microsoft can profit differentially from this software only insofar as they can prevent others from using it without pay. This prevention depends on the existence and enforcement of intellectual property rights; that is, on the extent to which Microsoft can harness the state to its own end. Remove this ability and in no time you will see Microsoft's earnings and capitalization converge on the number zero.

Similarly with so-called financial intermediaries such as Deutsche Bank. The differential earnings of this group depend, among other things, on interest rate differentials and credit volumes—both of which emerge from a complex power interplay of government policy, cooperation and conflict among the leading financial intermediaries, the relative power of borrowers, and the ebb and flow of risk perceptions. The state is deeply "discounted" at every step of the way, even if we cannot separate it from the other aspects of power.

Or consider DaimlerChrysler. The level and pattern of its differential earnings depend on its tacit and open collusion with the other seven auto titans. They also depend on the highway system provided by governments and the availability of alternative public transportation; they depend on environmental regulation or lack thereof; they depend on the ups and downs in the price of oil and hence on the politics of the Middle East; they depend on tax arrangements with various governments and on the ability to legally

use transfer pricing (intra-firm imputations of prices and costs designed to minimize taxes); they depend on a sophisticated propaganda war that creates wants and shapes desires; they depend on the relative strength of DaimlerChrysler's labor unions; and so on and on. DaimlerChrysler's profits also hinge on its huge credit operations, and therefore on monetary policy; and they depend on the company's military business, and therefore on the global politics of armament budgets and the threat—real or imaginary—of inter- and intrastate conflict.

A final example—the oil companies. As we shall see later, over the past 30 years changes in the relative profits of these companies have had little to do with variations in the production of oil—and almost everything to do with variations in the price of oil. And the relative price of oil in turn has had little to do with utility through supply and demand or abstract labor through production—and everything to do with the global political economy in general and the political economy of the Middle East in particular. So here, too, profit is a matter of politics, which means that assets partly capitalize state power.

The conclusion then is pretty clear. If capital is a material substance, then the most we can say is that the state does or does not “affect” its accumulation. But if assets represent capitalized power, then capital must be seen as *incorporating within it* features of state power; in other words, that *the state is partly an aspect of capital*.

### *The Capitalist State*

The other side of the coin is the extent to which the state is “conditioned” by capital. Few people would deny the existence of state organs—namely the government, the judiciary, the civil service, the police, and army. The existence of these organizations is hardly in dispute. What is far less obvious is the logic that lies behind them. Opinions on this question vary widely. At one extreme we have the realist position, according to which the state, represented by its “officials,” seeks to defend the “national interest” against the interest of other nations. At the other extreme, we have the structuralist Marxist position that sees the state, in the “last instance,” as being subservient to the “logic of accumulation.” And both views ring true. There is little doubt that George W. Bush and his administration believe that they represent the “national inter-



est” of the United States. It is also fairly obvious that this same administration, despite its considerable leeway, cannot deviate too much from the underlying “dictates” of profit and accumulation.

And here lies the problem: as stated, both views are in fact mutually consistent. How do we *rank* them? Did the United States attack Iraq in 2003 to serve its vital national interests? To protect the capitalist order? Both? Which is the more important? Can we even tell them apart? Similarly, how do we trace the *changing* significance of each of these distinct logics? Considering the past 50 years, could we say, for example, that the national interest has grown less imposing relative to the logic of accumulation, or was it the other way around? Perhaps the underlying logics of the national interest and accumulation have both changed?

If we think of the two key power institutions of our society as capital and state, and of the two key power organizations as the corporation and the government apparatus, the question that we need to address is their respective boundaries: to what extent are they distinct, how far do they overlap, and how does their symbiosis develop over time?

These, undoubtedly, are big questions. To answer them, we have to take the following steps. First, we need to specify clearly the “logic of state power,” and the “logic of accumulation,” including the categories and units in which they are articulated and observed. Secondly, we need to identify conflicts between these logics. And, thirdly, we need to examine how these conflicts pan out comparatively and historically. Based on such investigation, we can then choose the logic that gives the most consistent, robust, and predictive picture. Clearly, so far the debate has not taken this route. Worse still, it seems that both sides—the realists and the structural Marxists—have preferred to frame their positions in irrefutable terms.

Stephen Krasner, an advocate of the realist view, interprets the national interest not as the sum of individual interests, but rather as the overall interest of the nation. In his words, it is not the “utility *of* the community” that matters, but the “utility *for* the community” as determined by its central decision makers (Krasner, 1978: 12, emphases in the original). However, it is not always clear who the “decision makers” are, and that they in fact agree on what constitutes the “national interest.” So, in practice, it is up to the researcher—Krasner in this case—to make the decision for them. And the

way this interest is phrased is often so loose that it can be made consistent with virtually any line of action. For example, according to this template, the 2003 United States invasion of Iraq was motivated (depending on the theorist) by the quest for raw materials, by the need to spread capitalist ideology, by the desire to tame the barbarians, by the aspiration to thwart Europe and Asia, by the desire to have George W. Bush reelected, or simply by a miscalculation—all in the name of the national interest. Go prove otherwise.

Unfortunately, structural Marxists do not always fare much better in specifying the logic of accumulation and the interest of capitalists, let alone in assessing the *degree* to which this logic and interest dominate the state. In the 1960's, the welfare state served the long-term interest of capitalism; in the 1980's, the welfare state's demise better served that same interest. In the 1980's and 1990's, capitalists wanted a new world order of peace; now they suddenly want Empire. In the 1970's and 1980's the U.S. government tried to serve its "own" capitalists by conspiring with OPEC to raise oil prices; in the early 2000's it tried to cater to their "global" interests by invading the Middle East in order to lower oil prices. These claims may or may not be true. But their validity can be judged only if we first specify *exactly* what we mean by the "interest of capitalists" and the "logic of accumulation." Only then can we begin to judge whether state organizations are autonomous or subservient to these interests, or perhaps somewhere in between.

The remainder of this article outlines the logic of capitalism and the interests of the dominant owners as we see them. We then illustrate some key features of the historical development of capital accumulation. The quantitative patterns that we outline delineate the boundaries of capitalist politics. These boundaries point to the central political processes, broadly defined, that determine the course of accumulation. They also provide a basis for assessing, if only tentatively, the extent to which state policies have been "discounted" into capital on the one hand and the degree to which the logic of capital itself has become a "form of state" on the other.

## VI. DIFFERENTIAL ACCUMULATION AND DOMINANT CAPITAL

Every power society has its own hierarchical system of ranking, and capitalism's is by far the most universal, flexible, and encompassing. With capital viewed as a capitalization of power, the logic of accumulation is inherently differential. A stock or a bond is a power claim over the social process. Its relative quantity, measured as a ratio of money values, represents the proportionate ability of the owners to control and shape this process for their own aims. And since this power, by definition, is exclusionary, it is only relevant relative to the power of other owners. Microsoft's capitalization being \$293 billion is meaningless. But this capitalization being ten times larger than GM's and a million times larger than a well-off software analyst gives us a clear reading of Microsoft's relative power. For this reason, capitalists seek not absolute accumulation, but *differential accumulation*. They want not more purchasing power or more machines, but to see their assets grow faster than the average. They want to augment their ability to exclude and redistribute, and the evidence for this ability is differential asset growth.

For any capitalist or group of capitalists, the rate of differential accumulation (*DA*) can be provisionally defined as:<sup>22</sup>

$$DA = \text{growth rate of assets} - \text{growth rate of the average asset}$$

And since assets represent the discounted value of risk-adjusted earnings, this definition can be approximated as:

$$\begin{aligned} DA = & (\text{growth rate of expected earnings} - \text{growth rate of average} \\ & \text{expected earnings}) \\ & - (\text{growth rate of risk} - \text{growth rate of average risk}) \end{aligned}$$

We can further simplify this expression by noting that, over the longer haul, earning expectations tend to oscillate around the path of actual earnings, so that:

$$\begin{aligned} DA \approx & (\text{growth rate of earnings} - \text{growth rate of average earnings}) \\ & - (\text{growth rate of risk} - \text{growth rate of average risk}) \end{aligned}$$

All in all, then, the higher the differential earnings and the lower the differential risk, the greater the rate of differential accumula-

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<sup>22</sup> A technical note: for the sake of presentation, the equations refer to instantaneous rates of growth.

tion. And the greater the rate of differential accumulation, the greater the increase in relative social power.

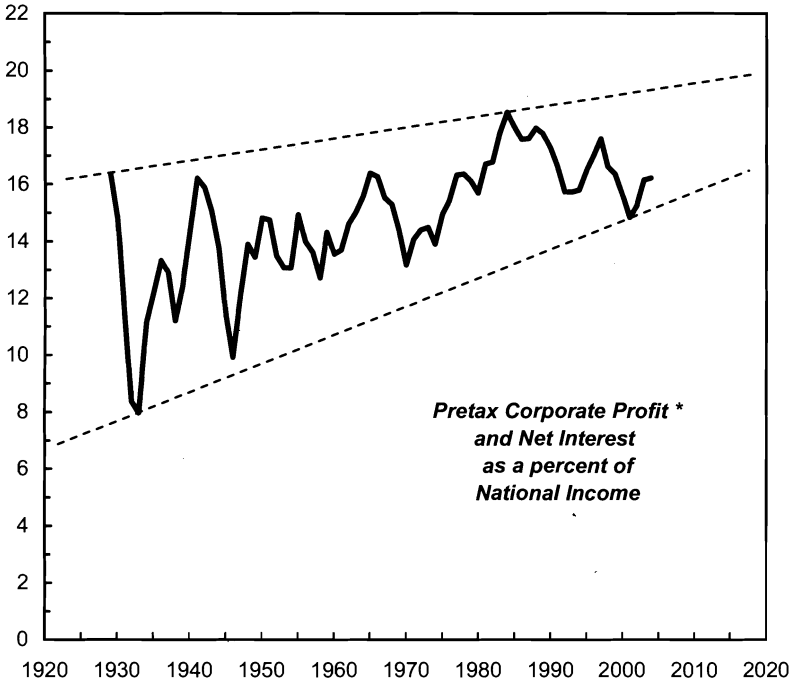
Obviously, not all capitalists can achieve differential accumulation. If some accumulate differentially, there must be others who *de*-accumulate differentially. For this reason, we cannot treat all capital as inherently similar ("capital in general" or "many capitals in competition"). From the start, we must identify the leading differential accumulators whose capital grows the fastest. This group is historically determined. Usually, it consists of the owners and top executives of the largest corporations at the core of the political economy (as well as smaller contenders whose power is rapidly rising). We label this group *dominant capital*. The fact that this group generally succeeds in achieving differential accumulation on the one hand, and its intricate involvement in the central power processes of government, the law, ideology, mass persuasion, international organizations, production, and consumption on the other, are really two sides of the same process. Dominant capital, by its very nature, must become increasingly fused—although never entirely synonymous—with the ruling class in contemporary capitalism.

The extent to which dominant capital is able to shape the social process is imprinted on the *nomos* of capitalist accounting. Broadly, this ability is reflected in the combined share of interest and profit in overall income (earnings), as well as in the variability of that share (risk). In the United States, the path of both indicators, illustrated in figure 2, suggests the growing consolidation of capitalist power. First, the share of capital in national income has trended up systematically—from an average of less than 12% in the 1930's to nearly 17% in the 1990's. Secondly—and in open defiance of conventional finance theory—the variability of the income share of capital has actually declined, and steeply.<sup>23</sup> All in all, then, capitalists controlled a growing share of the total income stream in the United States; and, judging by the declining variability of that share, this control has become more predictable and less risky.

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<sup>23</sup> In terms of standardized relative deviations from trend, measured as a twenty-year moving average, the variability of the income share of capital declined by two-thirds from the 1930's to the mid-1960's, and remained relatively stable thereafter.

**Figure 2**  
Capital Income in the United States



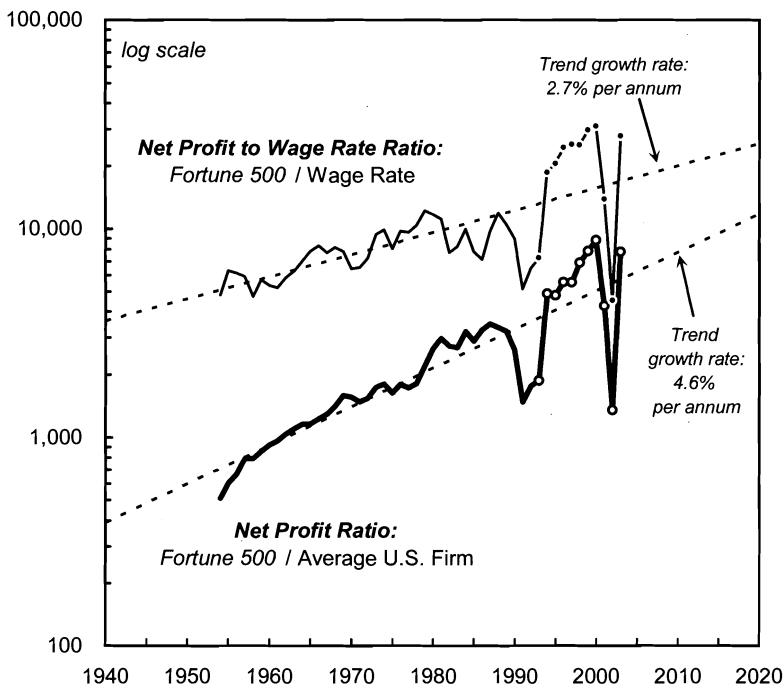
\* Including capital consumption allowance and inventory valuation adjustment.

Source: U.S. Department of Commerce through Global Insight (series codes: INTNETAMISC for interest; ZBECON for corporate profit; YN for national income).

As emphasized, underlying the aggregate picture is the growing power of dominant capital, measured by its differential accumulation. Figure 3 provides two indicators for differential accumulation. The proxy for dominant capital here is the Fortune 500 group of companies. The top series in the chart shows the ratio between the net profit of a typical Fortune 500 firm and the annual average wage rate in the private sector. The bottom series shows the ratio between the net profit of a typical Fortune 500 firm and the average net profit per firm in the corporate sector. (These indicators are biased in two ways. First, until 1993, the Fortune 500 proxy included only firms whose largest line of business in terms of sales was manufacturing and/or mining, and therefore did not represent the full spec-

trum of dominant capital. From 1994 onward the universe has been expanded to include all firms. Secondly, capitalist income for both the Fortune 500 and the average corporation does not include interest income earned by corporate creditors and bondholders.)

**Figure 3**  
Differential Accumulation in the United States



Note: Net profit for the average U.S. firm is total after tax profit divided by the number of corporate tax returns. The annual wage rate is based on total private average hourly earnings. Until 1993, the Fortune 500 list included only industrial corporations (firms deriving at least half their sales revenues from manufacturing and/or mining). In 1994, the list was expanded to include all corporations. For 1992–93, data for Fortune 500 companies are reported without SFAS 106 special charges.

Source: *Fortune*; U.S. Internal Revenue Service; U.S. Department of Commerce through Global Insight (series codes: ZA for profit after tax without IVA and CCADJ; AHEEAP for total private average hourly earnings).

Both series show a persistent exponential uptrend (note the logarithmic scale). In the early 1950's, a typical dominant capital firm

commanded a profit stream roughly 5,000 times the income of an average worker; in the late 1990's, the comparable figure was 25,000, a fivefold increase. Similarly with differential accumulation relative to other firms. In the early 1950's, the net profit of a Fortune 500 firm was 500 times bigger than the U.S. average; in the late 1990's, the multiple was around 7,000, a fourteen-fold increase. Unlike with the total income share of capital depicted in figure 2, here the increase in differential earnings has been accompanied, particularly in the early 1990's and early 2000's, with higher volatility (although a more complete analysis that includes interest income and adjusts for the prevalent accounting fraud of the late 1990's could modify this conclusion).

Assuming our power approach to accumulation is correct, these indicators suggest that, over the past century, the power logic of capital in the United States has significantly solidified (larger income share and lower variability), and that dominant capital, the engine of this process, has grown stronger (although possibly more vulnerable to higher risk). How has this increase in capitalist power been achieved?

### *Regimes of Differential Accumulation*

Differential accumulation is a broad political process and, as such, could be examined in various ways. Here, we look at it from the viewpoint of the capitalist corporation. Analytically, there are two methods of achieving differential accumulation: *breadth* and *depth*. To illustrate the meaning of these concepts, begin with the dollar level of corporate earnings, written as a product of two components: (i) the "size" of the corporate organization, proxied by the number of employees; and (ii) the "elemental power" of that organization, measured in dollar earnings per employee.<sup>24</sup> Symbolically, this decomposition could be written as follows:

$$\text{earnings} = (\text{employment}) \cdot (\text{earnings} / \text{employment})$$

Labeling the first brackets breadth and the second depth, we have:

$$\text{earnings} = \text{breadth} \cdot \text{depth}$$

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<sup>24</sup> The concept of earnings here refers to profits and/or interest as the case may be.

This decomposition requires clarification. Despite the obvious connotations, our reference here to employment and to earnings per employee has little to do with “production.” As noted, our concern is not productivity, utility or labor; it is *power*. In capitalism, power is measured through the differential capitalization of earnings. By decomposing earnings we can get a sense of how power expands and contracts.

The choice of employment as a measure of organizational size is not accidental. Ever since the first power civilizations in the ancient river deltas, organizations were measured by “head,” or *capita*. They were counted in slaves, soldiers, serfs, religious followers, factory workers, and now, more generically, employees. The number of heads under one’s immediate command—relative to the number of heads commanded by others—is indicative of one’s power.

But formal organizational size is merely the first, immediate dimension of power. In the past, rulers were able to use their slaves, soldiers, serfs, religious laity, and factory workers to control others, far beyond the formal confines of their own organization. And the same is true, only many times over, with the broader category of employment. Operating through their corporate organization, capitalists are able to extend their indirect power over society as a whole. This indirect power takes numerous forms—from the creation of loyal and predictable consumers, through the taming of voters, to the control of subcontractors, the subjugation of governments, the shaping of public policies, the molding of culture and ideology, the harnessing of religion, the use of armies and police forces, and the crafting of international relations. The relative effectiveness of these multiple forms of indirect power becomes crystallized in the magnitude of differential earnings per employee. This latter measure represents the elemental power of the capitalist organization, its ability to extend its power beyond its immediate size.

The decomposition of capitalist earnings into employment and earnings per employee, although true by definition, is highly useful for our purpose. To see why, think about the above equation in relative, or differential, terms. A dominant capitalist increases breadth in absolute terms by increasing employment; he increases breadth in relative terms by increasing differential employment—that is, by increasing his own employment *faster than the average*. For example, if average employment growth is 5%, and dominant capital expands its



labor force by 7%, we say that differential breadth is 2% (the difference between the two).

Following the same logic, to increase depth is to raise earnings per employee, and to increase differential depth is to raise earnings per employee *faster than the average*. If the average earnings per employee grow by 10% and dominant capital achieves 14%, differential depth is 4 percent.

Each of these methods—breadth and depth—can be further subdivided into *external* and *internal* avenues, leading to a four-way classification illustrated in table 1.

**Table 1**  
Regimes of Differential Accumulation

	<b>External</b>	<b>Internal</b>
<b>Breadth</b>	<i>Green-field</i>	<i>Mergers &amp; Acquisitions</i>
<b>Depth</b>	<i>Stagflation</i>	<i>Cost-cutting</i>

*External breadth* takes place when dominant capital hires new workers and creates new (green-field) capacity faster than the average. *Internal breadth* occurs when dominant capital takes over existing capacity and workers through mergers and acquisitions; that is, by buying other companies. Individually, large firms engage in both methods; but as a group, their differential breadth is determined almost entirely by the latter. “One capitalist always kills many,” observed Karl Marx in the nineteenth century (1909: I, 836). And, indeed, the twentieth-century growth of big business was achieved mostly by amalgamation, with large firms buying existing capacity rather than building it (see for instance, Scherer & Ross, 1990: chs. 3 and 5).

*Internal depth* refers to the ability of large firms to increase earnings per employee by cutting costs faster than the average. *External depth* denotes the capacity of large firms to do the same by increasing prices faster than the average. Again, individually, dominant capital firms try to do both, sometimes simultaneously. But over the longer haul it is mostly the latter method that matters for differential depth. Cost cutting, of course, is pursued relentlessly by both large and small firms. However, since it is difficult to prevent others from using new production techniques and from taking

advantage of cheaper input prices, the net impact of cost cutting is mostly to meet the average rather than beat it. Historically, the main gains in differential depth have come from dominant capital raising its prices faster than the average, a process that at the aggregate level appears as stagflation.

Now, to most readers, these claims would seem counterintuitive, if not preposterous. As noted, growth often is used as a synonym for accumulation, and inflation is considered poisonous for profit. Capitalism, goes the conventional creed, abhors stagnation and loves price stability.

Unfortunately, these conventions do not sit well with the facts, real or imaginary. The mismatch is largely the result of the theoretical fixation on “material” accumulation already alluded to. If we break this fixation and instead think of accumulation as a differential power process, mergers and acquisitions suddenly become as important as growth, if not more so, and stagflation, at least under certain circumstances, turns from foe to friend. Indeed, as we shall see below, these two accumulation paths—amalgamation and stagflation—have become so paramount that they now appear as broad social regimes, each with its own unique characteristics.

## VII. AMALGAMATION AND STAGFLATION

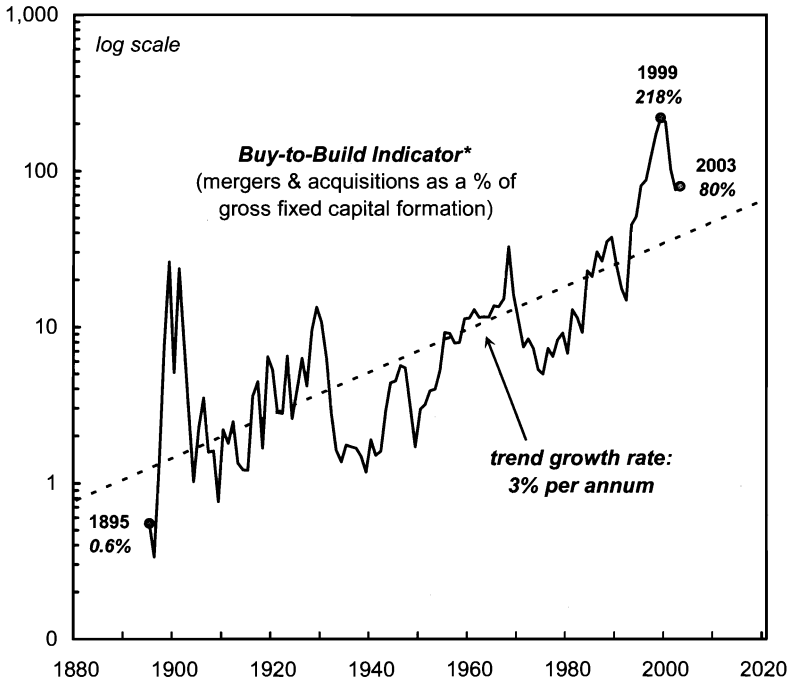
### *Growth or Merger?*

There is no denying that green-field growth is a central process in capitalism. But as we have seen, the effect of growth on corporate earnings is highly nonlinear—and from a certain point, negative. The twentieth-century rise to prominence of big business and large government helped circumvent the threat of “excessive” growth. Gradually, differential accumulation by dominant capital has come to depend more and more on corporate merger (internal breadth) and less and less on green-field growth (external depth).

The process is clearly illustrated in figure 4, which shows what we call the “Buy-to-Build Ratio” for the United States. This index measures, for each year, the ratio between the dollar value of mergers and acquisitions and the dollar value put into building new factories, or what economists call “real” investment. Note the explosive growth of this ratio, plotted on a logarithmic scale. In the

late nineteenth century, there was less than one cent's worth of mergers and acquisitions for every one dollar of "real" investment. Fast-forward another hundred years, and for every one dollar of "real" investment there were over two dollars put into mergers. In other words, over the entire period mergers have grown roughly 300 times faster than "real" investment.

**Figure 4**  
Corporate Amalgamation in the United States



Source: Nitzan & Bichler (2002: 82–83).

Does this process make any sense? From the viewpoint of absolute accumulation, not really. Mergers do not add more machines, more utility, or more abstract labor. They simply reshuffle ownership. But from the viewpoint of differential accumulation, the process makes a great deal of sense. For dominant capital, "too much" green-field investment is disastrous. Simply put, it means the inability to exclude—the other side of which is glut, falling prices, and,

eventually, differential *decumulation*, including the possible disintegration of the existing grid of power, institutions, and capabilities.

Clearly, it is much better to buy than to build. Buying helps dominant capital kill four birds with one stone: (1) it does not create any new capacity; (2) it expands control; (3) it helps earnings grow faster than the average—since, by definition, the average remains the same; and (4) it reduces risk by making the resulting units larger, more diversified, and further intertwined with state organizations and processes.

This focus on merger helps explain the globalization zeal of the past twenty years. The chart shows four merger waves. Each of these waves occurred within a given corporate universe. (1) The monopoly wave of the turn of the century occurred within individual industries; (2) the oligopoly wave of the 1920's occurred within sectors; (3) the conglomerate wave of the 1960's took place across the entire business sector; and (4) the last wave of the 1980's and 1990's was, by and large, global.

This historical progression is not without logic. When expanding through merger, dominant capital eventually takes over everything worth owning in its original universe. And once it reaches that point, the only way to continue merging is to break this original envelope and expand into the next one. This logic explains the progression from the industry to the sector to the national border. And eventually, when the national scene becomes highly centralized, it explains why there is no choice but to “go global.”

From this perspective, neoliberal globalization—both as an ideology and as a practice—was a matter not of choice but of necessity: Without it, the fourth merger wave could not have happened. Furthermore, the driving force was not productive integration (although that could be a consequence), but power. According to U.N. data, roughly three-quarters of all direct foreign investment in the 1990's occurred through corporate merger (we return to the issue of globalization at the end of this section).<sup>25</sup>

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<sup>25</sup> Note that, on its own, the act of foreign investment—whether portfolio or direct—consists of nothing more than the creation or alteration of ownership titles. The popular perception that direct investment creates new productive capacity, in contrast to portfolio investment, which is merely a paper transaction, is simply wrong. In fact, *both* are paper transactions whose only difference is relative size: investments worth more than 10% of the target company's equity are commonly classified as direct, whereas those worth less are considered portfolio.

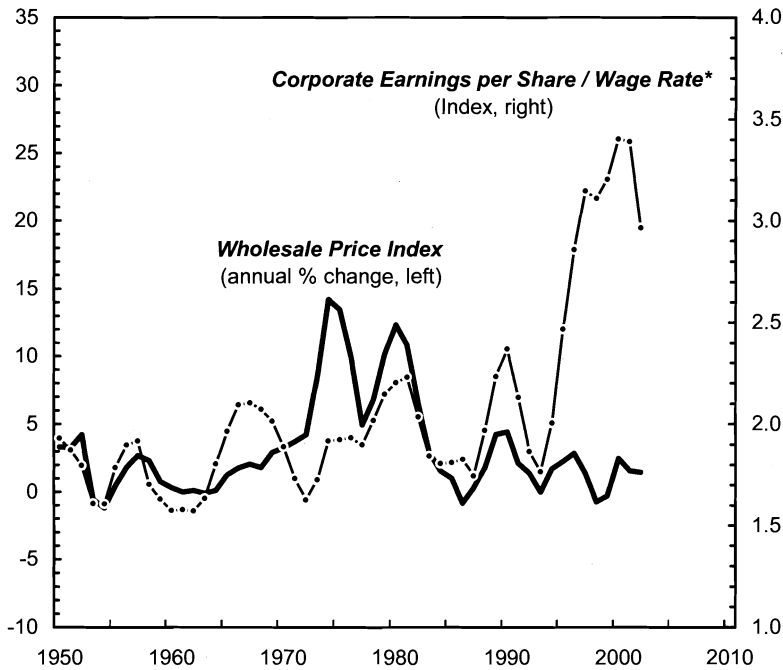
It should be emphasized here that each “breaking of the envelope” involves more than a mere change in ownership. Typically, it is accompanied by a comprehensive social transformation, including changes in ideology, policy, organization, institutions and, of course, the emergence of new opposition and the rekindling of counterstruggles. Partly for such reasons, merger is not always possible. Figure 4 shows that each of the merger waves eventually collapsed. And this is where inflation—or external depth—comes into the picture.

### *Price Stability or Inflation?*

Inflation has been a permanent feature of twentieth-century capitalism. In developed countries such as Great Britain and the United States, prices have risen uninterruptedly (with the Great Depression being the only exception), scoring nearly a 50-fold increase from 1900 to 2000. In developing countries, the rate of increase was often much higher. And yet, most political economists, whose theories remain informed by the deflationary nineteenth century, continue to argue that the phenomenon is largely “monetary” and therefore “neutral.” This insistence is misleading, to put it mildly. First, inflation is a major engine of redistribution in capitalism. Secondly, and in open defiance of the stern “laws of supply and demand,” inflation tends to emerge not with growth, but with stagnation; that is, it tends to appear as *stagflation*.

Inflation redistributes income in many ways, of which we emphasize two. The first is redistribution from workers to capitalists. As we already saw in figure 3, the profits of U.S.-based dominant capital have risen exponentially relative to the wage rate. Figure 5 shows how this redistribution relates to inflation. The thin series in the chart measures the ratio between corporate earnings per share (the price of a unit of owned capital) and the average wage rate (the price of a unit of owned labor power). When this ratio goes up, income is redistributed from workers to capitalists; the opposite occurs when the series goes down. The thick series in the chart shows the annual inflation rate, measured by the wholesale price index.

**Figure 5**  
U.S. Inflation and Capital-Labor Distribution



\* Corporate earnings per share are for the *S&P 500* Index (ratio of price to price/earnings). The wage rate is the average hourly earning in the private sector.

Note: Series are smoothed as three-year moving averages.

Source: Global Financial Data (series codes: *\_SPXD* for price; *SPPECOMW* for price/earnings); U.S. Department of Commerce and U.S. Bureau of Labor Statistics through Global Insight (series codes: *AHEEAP* for the wage rate; *WPINS* for the wholesale price index).

The data in the figure go back more than 50 years, so they certainly can tell us something about the historical pattern. The correlation is not very tight—which is to be expected given the many other factors involved. But to the extent that there is a rough pattern here it suggests that, *in general*, U.S. inflation has worked in favor of capitalists and against workers. When inflation was up, capitalists tend-

ed to gain and workers to lose.<sup>26</sup> It should be mentioned, again, that the data here do not include corporate interest payments to creditors and bondholders. These latter payments tend to rise with inflation, thus further boosting the inflationary redistribution from workers to capitalists.

The second redistribution is from small to large firms, with inflation acting as a mechanism of *differential* accumulation. This latter process is illustrated in figure 6, which, again, pertains to the United States. The thin line in the figure shows the ratio between the profit markup of the Fortune 500 and the average profit markup in the business sector as a whole. When this ratio goes up, it means that the markup of large firms rises faster (or falls more slowly) than the average markup. When the ratio goes down, it means that the markup of large firms rises more slowly (or falls faster) than the average markup. The thick line denotes the rate of inflation. And, again, the correlation here is tightly positive. Inflation clearly is a mechanism of differential accumulation.<sup>27</sup>

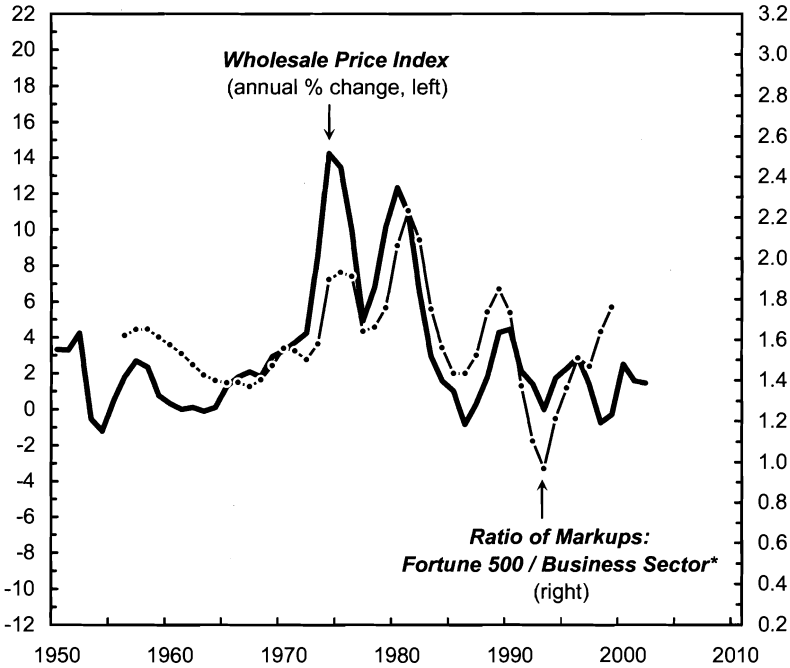
So, contrary to what many economists like to tell us, inflation is by no means “neutral.” On the contrary, it is a very potent engine of accumulation. Of course, a rise in prices does not increase the “amount” of machines. But accumulation is not about machines; it is about increasing capitalist power in general and differential power in particular. And here inflation often works wonders.

This conclusion naturally leads to the following question: if inflation is so good for capitalists, why do they oppose it? The short

<sup>26</sup> Corporate earnings—in this case, profit ( $\pi$ )—is the product of the number of units sold ( $Q$ ), the price per unit ( $P$ ), and the ratio of profit to sales revenues, or the markup ( $k$ ). In order for capitalists to benefit relative to workers, the product of these three components has to rise faster than the wage rate ( $w$ ). This relative increase can occur in many different ways: for instance, if  $Q$  and  $k$  remain unchanged but  $P$  rises faster than  $w$ ; if  $Q$  remains unaltered and the product  $P \cdot k$  increases faster than  $w$ ; etc. In this framework, the positive correlation in figure 5 means that the higher the rate of inflation, the more rapid the combined increase in the three components of corporate profit *relative* to the wage rate (changes in the number of corporate shares also affect the ratio in the chart, but these changes are usually small relative to the fluctuations of profit and wages).

<sup>27</sup> For the profit markup to rise, firms have to raise their prices faster (or have them fall more slowly) than their unit cost (i.e., the cost of labor, materials, interest, and taxes). For the markup of large firms to rise *relative* to the average markup, large firms must be able to raise their price-to-cost ratio *faster* than the average price-to-cost ratio. The positive correlation in figure 6 suggests that this ability rises and falls with the overall rate of inflation.

**Figure 6**  
U.S. Inflation and Differential Accumulation



\* The markup is the percent of net profit in sales. The Fortune 500 markup is the percent of after tax profit in sales revenues. The business sector markup is computed by dividing total corporate profit after tax, with IVA and CCA (from the national income accounts) by total business receipts (from the IRS). The Ratio of Markups is given by dividing the Fortune 500 markup by the business sector markup.

Note: Until 1993, the Fortune 500 list included only industrial corporations (firms deriving at least half their sales revenues from manufacturing and/or mining). In 1994, the list was expanded to include all corporations. For 1992–93, data for Fortune 500 companies are reported without SFAS 106 special charges. All series are smoothed as three-year moving averages.

Source: U.S. Department of Commerce through Global Insight (series codes: ZAADJ for total corporate profit after tax with IVA and CCA; WPINS for the wholesale price index); U.S. Internal Revenue Service; *Fortune*.



answer is that they do not always oppose it. The longer answer requires that we consider the impact of inflation not only on earnings and redistribution, but also on risk. Inflation certainly is a risky business with serious downsides. The main reason for this risk is that, contrary to popular belief, over the long run inflation tends to appear as stagflation; that is, inflation *together* with stagnation. Indeed, we would further argue—although we cannot prove it here—that some stagnation in fact is a *precondition* for inflation.<sup>28</sup>

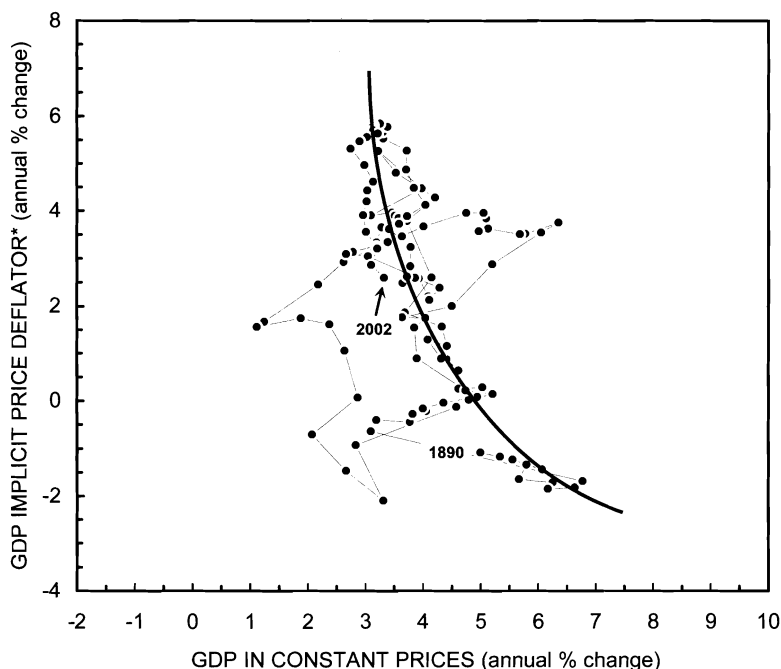
Figure 7 plots the long-term relationship in the United States between inflation on the vertical axis and economic growth on the horizontal axis. The correlation in the chart is clearly negative, not positive, and the United States is hardly an exception in this regard. Although many economists prefer not to know it, in fact, the same negative long-term relationship is evident in most countries (see for instance, Nitzan, 1995). The stagnation that tends to come with inflation, along with other aspects of social instability, raises risk perceptions, and rising risk is a big negative for accumulation.

Thus, unlike mergers and acquisitions that both boost differential earnings and lessen differential risk, inflation is potentially a double-edged sword. It tends to raise differential earnings by redistributing income from workers to capitalists and from small to big firms, but the accompanying rise in unemployment and uncertainty raises risk and can mitigate these differential gains (what matters to differential accumulators is not overall, but differential risk—i.e., their own risk relative to the average risk). The crucial interplay between these two potentially opposing aspects of inflation has received little attention and deserves much further research. Nonetheless, the existence of these opposing impacts serves to suggest why large capitalists often endorse inflation—but always half-heartedly and usually when they feel that “there is no alternative.” And this feeling of no alternative tends to develop when mergers go into hibernation.

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<sup>28</sup> For more on this issue, see Nitzan & Bichler (2002: ch. 4).

**Figure 7**  
United States: Long-Term Inflation and Growth



\* Ratio of GDP in current prices to GDP in constant prices.

Note: Series are shown as twenty-year moving averages. The smooth curve running through the observations is drawn freehand for illustration purposes.

Source: Historical data till 1928 are from The Bank Credit Analyst Research Group. From 1929 onward, data are from the U.S. Department of Commerce through Global Insight (series codes: GDP for GDP; GDP96 for GDP in constant prices).

### *The Pendulum*

The historical relationship between merger and stagflation is very interesting and largely unexplored.<sup>29</sup> Figure 8 describes their related patterns for the United States. The top line in the chart is a stagflation index. The index is constructed, first, by measuring the

<sup>29</sup> To our knowledge, we are the only ones to have investigated this relationship. For an analysis of the process at the global level, see Nitzan (1999; 2001). For a comparative study of South Africa and Israel, see Nitzan & Bichler (2001).

standard deviation of inflation from its historic average; then, by computing the standard deviation of unemployment from its average; and finally by taking the average of the two indices. A zero reading on the combined index denotes the average rate of stagflation, a high reading indicates above-average stagflation, and a low reading means below-average stagflation.<sup>30</sup> The lower line in the figure—our amalgamation index—is the “Buy-to-Build Ratio”: the ratio between the dollar value of mergers and acquisitions and the dollar value of “real” investment from figure 4.

Several rather remarkable patterns are evident from the chart. The first feature is secular. The chart shows that, over the long haul, mergers and acquisitions were the path of least resistance. Whereas stagflation moved sideways, oscillating around its own stable mean, mergers and acquisitions rose exponentially relative to green-field investment (note the logarithmic left scale). Conventional views of accumulation often identify the gradual deceleration of green-field investment over the past century as an accumulation crisis. From the viewpoint of capital as power, however, this declaration is a sign not of weakness, but of strength. Excessive capacity growth is disastrous for capitalist power. It needs to be carefully regulated, and corporate amalgamation, in addition to its direct contribution to differential accumulation, does precisely that: it keeps capacity growth checked at its moderate, Goldilocks range.

The exponential growth in the “Buy-to-Build Ratio” also helps put in context the gradual shift of state policies. While official rhetoric in the United States and elsewhere has remained loyal to the “national interest” of growth, policy practice has increasingly tilted in favor of amalgamation—via deregulation (and re-regulation in other forms), privatization, subsidies, and tax incentives.

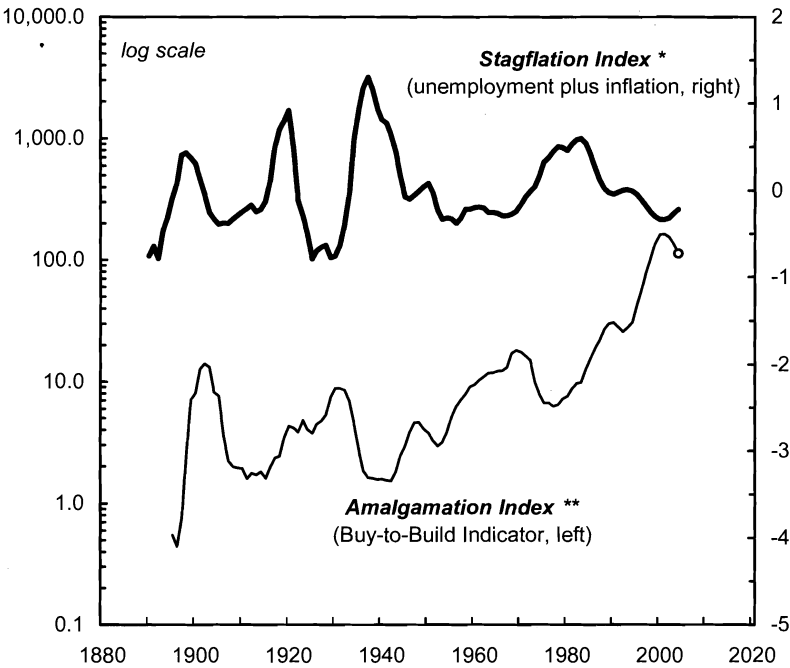
The second feature in the chart is cyclical. Following the initial emergence of big business in the United States in the 1890’s, merger and stagflation have tended to move counter-cyclically, as a mirror image of each other. Temporary declines in mergers and acquisitions were typically compensated for by sharp increases in stagflation; and when amalgamation resumed, with dominant capital

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<sup>30</sup> The continuous existence of under-utilized capacity and unemployed workers means that the United States experienced some measure of stagnation throughout the twentieth century. Also, with the exception of the 1930’s, there was always some inflation. Strictly speaking, then, U.S. inflation during that period was always *stagflationary*.

breaking through its existing envelope and into a broader universe, stagflation promptly abated.

**Figure 8**  
Amalgamation and Stagflation in the United States



\* Computed as the average of: (1) the standardized deviations from average of the rate of unemployment, and (2) the standardized deviation from the average rate of change of the GDP implicit price deflator.

\*\* Mergers and acquisitions as a percent of gross fixed capital formation. The last data point (2004) is our own estimate.

Note: Series are shown as five-year moving averages (the first four observations in each series cover data to that point only).

Source: The Stagflation Index is computed from data from the U.S. Department of Commerce through Global Insight (series codes: RUC for the rate of unemployment; GDP/GDPR for the GDP implicit price deflator). The Amalgamation Index is from Nitzan & Bichler, 2002: 82–83 (updated to 2004).

The very existence of this counter-cyclical pattern is startling, even from the viewpoint of capital as power. Our argument in this article is that dominant capital is driven by the quest for differential accumulation, and that this quest is best served by amalgamation or stagflation. But amalgamation and stagflation are not laws of nature. They are creatures of the *nomos*. Neither has to happen, they do not have to move counter-cyclically, and they do not have to augment differential accumulation. In this context, the fact that both are orderly phenomena, that they do move counter-cyclically, and that their inter-related pattern has sustained continued differential accumulation for the past century—is nothing short of remarkable. The energy necessary to arrest a society of potentially free beings into such a historical straitjacket must be enormous. The fact that humanity now marches with this straitjacket on, and so predictably, attests the victory of the capitalist *nomos*.

The third, related pattern in figure 8 is the progressive tightening of the inverse correlation between merger and stagflation.<sup>31</sup> This progression from looser to tighter correlation may be related to the spread and penetration of differential accumulation as a central feature of contemporary capitalism. Differential accumulation by individual capitalists is not new. But it emerged as a *dominant political process* only toward the end of the nineteenth century, when corporations grew large enough and became sufficiently intertwined with state organizations to engage in systematic strategic sabotage. The process first became important in certain sectors in the United States and Europe, from where it subsequently spread domestically and internationally. However, the spread was highly uneven, and so, despite high capital mobility, the cyclical regimes in different sectors and countries initially were disjointed and out of step with one another. It was only later—with the gradual proliferation and deepening of business principles, conventions, and ideology, with the progressive breaking of sectoral envelopes, and with the growing globalization of ownership—that differential accumulation became the compass of modern capitalism. And therefore it was only toward the middle of the twentieth century, when the combined effect of these processes began to be felt, that breadth

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<sup>31</sup> The 25-year moving correlation between the stagflation and amalgamation indices (with the amalgamation index measured as natural log and expressed as deviation from its own exponential trend) fell from a +0.09 in 1914 (nearly no correlation), to -0.94 in 2003 (nearly perfect negative correlation).

and depth grew stylized and more synchronized. By the end of the century, the pendulum of breadth and depth has become almost predictable—so much so that in 1999 we were able to anticipate both the coming end of the neoliberal global merger boom and the shift toward conflict-driven stagflation (Nitzan, 1999).

Taken together, the three key features in figure 8—the growing significance of corporate amalgamation as the main engine of differential accumulation; the counter-cyclical movement of amalgamation and stagflation; and their tightening inverse correlation—can help us understand the changing nature of the capitalist *nomos*. On the one hand, these features provide a clear logic for the capitalization of power; they suggest a relatively predictable periodicity for its central processes; and they place fairly clear quantitative boundaries around these processes. On the other hand, by focusing on the qualitatively distinct socio-political hallmarks of corporate amalgamation and stagflation, we can historicize their quantitative patterns.

### *Differential Accumulation and the Pattern of Conflict*

Since differential accumulation is a process of social transformation, its specific regimes are important for understanding the broader nature of institutional and structural change under capitalism. Perhaps the most important of these changes concerns the pattern of conflict. Dominant capital struggles to increase its power, primarily relative to other capitalists. In breadth this struggle is direct; in depth, indirect.

When expanding through breadth, capitalists fight each other over the control of existing and new business organizations. This intracapitalist struggle is commonly associated with overall growth and ongoing institutional change, which in turn partly conceals the conflict between capitalists and society at large. By contrast, in depth, the intracapitalist struggle is waged over the elemental power of business organization; this struggle is mediated through a redistributive conflict between capitalists and the rest of society. Moreover, in depth, redistribution thrives on stagflation, not growth. Obviously, sustaining such accumulation-through-crisis requires entrenchment, fortified power arrangements, and a greater use of force and violence. All in all, then, the social conditions that are conducive to breadth are inhospitable for depth, and vice versa. This

fact partly explains why breadth and depth, taken as broad regimes, tend to move counter-cyclically rather than together.<sup>32</sup>

At the global level, and seen from the viewpoint of dominant capital in the core countries, we can tentatively identify several broad phases of differential accumulation whose initially blurred contours gradually sharpen into focus: (1) a mixture of breadth and depth during the period between the 1890's and 1910's; (2) a partial breadth regime during the 1920's; (3) a depth regime in the 1930's; (4) a breadth regime from the 1940's to the 1960's; (5) a return to depth in the 1970's and early 1980's; (6) the reemergence of breadth in the late 1980's and 1990's; and (7) the apparent return of depth in the early years of the twenty-first century. Let us look at each of these periods more closely.

The period from the 1890's to the 1910's was one of rapid and accelerating economic growth, coupled with relatively low inflation, and the beginning of corporate transnationalization, particularly by large U.S.-based companies. Internationally, differential accumulation was still cloaked in "statist" clothes, with American and European companies often seen as imperial agents as well as pursuers of their own interests. The competitive expansion of these companies, however, was largely uncoordinated and soon led to the creation of massive "imbalances" between excess productive capacity and insufficient business sabotage. Left unattended, such imbalances would have spelled business ruin, so there was growing pressure to resolve the predicament via depth. And, indeed, as figure 8 shows, since the mid-1900's U.S. merger activity had collapsed, followed in the 1910's by war in Europe and the spread of stagflation around the world.

The 1920's offered a brief break. In the United States, merger activity soared while stagflation subsided sharply. In Europe, however, the reprieve was short and stress signs soon were piling up. Protectionist walls, both between and within countries, emerged everywhere; stagflation spread through a cascade of crises; and before long the world had fallen into the Great Depression of the 1930's.

By that time, the counter-cyclical pattern of breadth and depth became more apparent, with declining merger activity accompanied

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<sup>32</sup> There has been considerable work on long waves in capitalist development, the most famous being that of Ernest Mandel (1995). This work focuses mainly on material production and is fundamentally different than our own.

by rising stagflation.<sup>33</sup> The new depth regime was marked by the massive use of military force, in which the global power impasse was resolved through an all-encompassing world war. This use of violence was articulated and justified largely in statist terms: it was a war of sovereigns, waged over territory and ideology. But the war also proved highly significant for differential accumulation. Most importantly, it accelerated the relative ascent of U.S.-based corporations, as well as the global spread of the normal rate of return.

After the war, the world again shifted to breadth. The counter-cyclical regime pattern was sharpened even further, while the inverse correlation between inflation and growth became increasingly apparent. On the surface, it looked as if developments during that period, that lasted until the end of 1960's, should have *undermined* breadth. For one, superpower rivalry, decolonization, and the nonalignment movement limited the geographical expansion of Western dominant capital. In addition, many developing countries, previously open to foreign investment, adopted import substitution policies that favored domestic over foreign companies.

And yet, for much of the 1950's and 1960's, these barriers on breadth were outweighed by two powerful counterforces. The first of these was the postwar baby boom that boosted population growth. The second was the postwar rebuilding of Europe and Japan that in some sense was equivalent to the reproletarianization of their societies. The result was a powerful breadth engine, particularly for the large U.S. firms that saw their profits soar during that period. The macroeconomic result in the industrialized countries—anomalous from a conventional viewpoint but consistent with differential accumulation—was rapid economic growth averaging 6% during that period, combined with low inflation of only 3 percent.

This picture was inverted in the 1970's. By then, the German and Japanese "miracles" had already run out of steam, while Western rates of population growth dropped sharply. Foreign investment

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<sup>33</sup> Strictly speaking, and contrary to our stylized characterization of depth, the Great Depression brought deflation, not inflation. This observation, however, is true only from an aggregate viewpoint. As Gardiner Means (1935) showed in his innovative study of the United States during that period, the nature of the crisis was highly uneven. For smaller firms with little market power the crisis was largely one of sharply falling prices and only a moderate drop in output. The large firms, on the other hand, were able to keep their prices relatively stable and even raise them, while letting their output fall by as much as 80% in some cases. In other words, stagflation, although invisible in the aggregates, was already present, if only in embryonic form.



could have provided a way out, yet outlets for such investment in developing countries remained hindered by communist or statist regimes. Faced with these obstacles to breadth, dominant capital groups in the developed world were once again driven toward depth, with the average rate of inflation during the 1970's rising to 8% and the average rate of economic growth dropping to 3 percent. And, as before, the new depth regime was accompanied by heightened conflict and violence. This time, though, the conflict was played out mostly in the outlying areas of the developing world, initially in Southeast Asia and subsequently in the Middle East.

### *Enter the Middle East*

The role of the Middle East in global capitalism provides a good illustration of the temporal spread and geographical integration of differential accumulation.<sup>34</sup> Until the late 1940's, the region was "out of sync" with the global cycle of differential accumulation. Its energy resources had already been parceled out by the international oil companies in the 1920's; but with the world awash with oil, these companies mostly "sat on their concessions" and produced little. As a result, the Middle East remained relatively isolated, and when Europe slipped into stagflation and conflict during the 1920's and 1930's, flight capital searching for safer havens turned the region into a prosperous "emerging market." After the war the tables turned. The Middle East—until then a truly outlying area—suddenly became a center stage for the global drama of differential accumulation.

Initially, the link was pretty simple, with oil from the region helping sustain the growth underpinnings of global breadth. During the early 1970's, however, when differential accumulation shifted into depth, the relationship became more complicated. As we noted earlier, the inflationary depth regime of the 1970's and 1980's was largely a consequence of dominant capital "running out of breadth." This exhaustion in turn was partly the result of bipolar geopolitics that prevented capitalist expansion into outlying areas and contested Western control over "strategic regions," particularly the Middle East.

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<sup>34</sup> For a detailed examination of the Middle East and global differential accumulation, see Nitzan & Bichler (1995), Bichler & Nitzan (1996), and Nitzan & Bichler (2002: ch. 5).

One key consequence of this antagonism was an intense arms race. In this context, it is not surprising that arms exports—of which over one-third were now going to the Middle East—roughly followed the periodicity of Western inflation: the first process nourished the antagonism and violence of depth, the second its redistributive mechanism. Global arms exports and inflation both rose until the mid-1980's, peaked as the Cold War began to wane, and went into a free fall with the disintegration of communism and the onset of global breadth (see Nitzan & Bichler, 2002: 77, figure 2.10). Moreover, the two processes were causally connected: as we shall show in Section VIII, military conflict, especially in the Middle East, contributed to rising energy prices, and therefore to higher inflation.

The late 1980's marked the beginning of yet another breadth phase—this time at the global level. On the surface, the new breadth regime was somewhat anomalous according to our “stagflation criteria”: inflation in the industrial countries dropped sharply—yet, unlike in the previous cycles, growth did not revive. A closer inspection, however, may explain why. First, with the collapse of the Soviet Union and the wholesale capitulation of statist ideology, the entire world was finally open for capitalist expansion. The result was that although external breadth for dominant capital fizzled in the industrial countries proper, it remained strong outside of these countries, particularly in developing Asia.<sup>35</sup> Moreover, cheap imports from Asia helped keep inflation in the industrial countries low despite the latter's domestic stagnation. Secondly, the ideological demise of public ownership and the mixed economy opened the door for the privatization of state assets and government services—a process that, from the viewpoint of dominant capital, was tantamount to green-field investment.<sup>36</sup> Thirdly and most importantly, the decline of statist ideology weakened the support for “national” ownership, thus contrib-

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<sup>35</sup> During the early 1990's, GDP growth in East Asia averaged 9%, compared with less than 3% in the industrialized countries. During that period, U.S.-based transnational corporations saw their net profit from operations in “emerging markets” rise to 20% of their total net profit, up from 10% in the 1980's (Nitzan, 1996).

<sup>36</sup> Although government deficits declined to around 1% of world GDP in the late 1990's, down from their all time high of over 5% in the early 1980's, *overall* government expenditures on goods and services have continued to rise. By the early 2000's, these expenditures surpassed 17% of world GDP, compared to less than 14% in the 1960's (computed from World Bank data). The privatization of such services—including transportation, water, infrastructure, education, and security—typically takes the form of giving/selling them to dominant capital, which contributes to differential accumulation in a manner similar to green-field investment.

uting to the spread of cross-border mergers and acquisitions. This combination of expansion into less developed countries, privatization, and corporate amalgamation helped sustain a powerful drive of breadth through merger for large Western corporations, despite the lackluster growth of their “parent” markets.

### *The Globalization of Ownership*

Differential accumulation operating through corporate amalgamation has had a deep, if unrecognized, impact on the decline of statist ideology. As we have seen, over the past half century, and particularly since the 1980’s, mergers have become global in scope. Increasingly, capital has been flowing not only from the so-called “core” to the “periphery,” but also in other directions—from the “periphery” to the “core,” as well as within the “core” and “periphery” clusters themselves. The cumulative effect of this process is illustrated in table 2.

In 1900, at the zenith of the imperialist era, foreign assets were equivalent to 20% of global GDP. British capitalists, already in relative decline, owned roughly half of these assets (down from 78% in 1855). The next half-century witnessed a sharp decline, with the ratio of foreign assets to GDP falling to a mere 5% in 1945. In 1960, U.S. owners, having taken the primacy from their U.K. peers, controlled half of these assets (with U.K. capitalists down to 41 percent). From then, foreign investment again started to accelerate, and with cross-border mergers gathering speed, the ratio of foreign assets to world GDP soared from record to record. In 2000, the ratio reached an all time high of 92 percent. The United States, though, was a follower, not a leader in this process. Owners from other countries expanded their foreign holdings twice as fast and, as a consequence, by the end of the twentieth century the overall share of owners based in the United States dropped by one-half, to 25 percent.<sup>37</sup>

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<sup>37</sup> During the 1990’s, capital outflow from developing countries accelerated dramatically, with massive consequences for the global distribution of ownership. For instance, in South Africa the ratio of total foreign assets to GDP rose more than threefold, from 25% in the early 1990’s to over 80% in the early 2000’s, while in South Korea this ratio increased by more than fourfold, from 10 to 40 percent. By contrast, in the United States, the ratio merely doubled, from 40 to 80% (based on IMF *Balance of Payment Statistics* data through WRDS).

**Table 2**  
The Globalization of Ownership

Year	Ratio of Global Gross Foreign Assets* to Global	Share of Global Gross Foreign Assets* (%)	
	GDP (%)	U.K. Owners	U.S. Owners
1825		56	0
1855		78	0
1870	7	64	0
1900	19	51	2
1914	18	50	6
1930	8	44	36
1945	5	40	43
1960	6	41	51
1980	25	21	28
1985	36	20	29
1990	49	19	21
1995	62	16	22
2000	92	15	25

\* Gross foreign asset stocks consist of cash, loans, bonds, and equities owned by non-residents.

Source: Obstfeld & Taylor, 2004: 52–53, table 2-1.

There was also a rapid penetration into the United States itself. According to the U.S. Federal Reserve Board, in 2003, U.S. residents owned \$7.9 trillion abroad—but foreigners already owned far more in the United States: \$10.5 trillion in total, roughly 20% of all U.S. assets, private and public, real or imaginary. Dependency on foreign earnings has been rising across the board. According to the U.S. Department of Commerce, U.S.-based transnational firms presently receive one-third of their profit from foreign operations, compared with 5% 50 years ago; a similar dependency on foreign operations is growing in other countries, both developed and developing.

Thus, driven by the imperatives of power, differential accumulation via cross-border merger has made *global ownership*—both of private assets and public debt—a reality, even in the United States. Note our specific emphasis here on global ownership rather than

“globalization” more broadly. The latter term has been used to denote a plethora of processes, ranging from culture, through ideology, to religion, politics, trade, production, and technology. These processes are not new. What is new in present-day capitalism is that, for the first time in history, these processes are increasingly encompassed by the progressive “capitalization” of social relations on a world scale; that is, by the progressive “commodification of power” into universally vendible units. The globalization of ownership implies both the “discounting” of more and more aspects of social power into asset prices and the increasing ability to buy and sell this commodified power anywhere in the world.

Increasingly, the prime purpose of foreign investment is not to expand production, but to *control the social process*. And with capital flowing in all directions, the main consequence has been to transform dominant capital itself into a progressively global entity. State officials continue to think in aggregate terms, talking in public about the “national interest” and in private about their “own” capitalists. But this “nationalist” emphasis is increasingly out of touch with the changing reality. State policies are “discounted” into asset prices—only that those who accumulate those assets can no longer be easily classified as “American,” “European,” “Brazilian,” or “South Korean.”

## VIII. THE CURRENT CROSSROADS

With these considerations in mind, we can now turn to assess the current conjunction of world capitalism. Consider again the breadth phase of the 1980’s and 1990’s as charted in figure 8. On the one hand, we saw a global merger mania sustained on the back of neoliberal ideology, deregulation, and capital mobility in a “global village.” On the other hand, we observed stagflation taking a free fall, a decline that went well with the neoliberal rhetoric of small government and sound finance.

But in 2000 we hit a turning point. Mergers have collapsed, the stock market has melted, and the “new economy” has been exposed as a fraud. Historically, falling mergers have triggered rising stagflation, and figure 8 indeed suggests that in 2002 the long downtrend of stagflation may finally have bottomed out.

So far, the shift toward higher stagflation has been hesitant. Twenty years of neoliberalism and free trade have created massive excess capacity, huge competitive pressures coming mainly from East Asia, and a capitalist consensus that preaches “disinflation.” During the 1990’s, these developments were warmly welcomed. The policy lingo was anti-inflationary, and “neoliberal competition” helped reduce inflation. But the process has gone too far. So much so that in 2003 the chairman of the Federal Reserve Board, Alan Greenspan, spoke of “an unwelcome substantial fall of inflation” (Greenspan, 2003). To our knowledge, that was the first time since the Great Depression that the Fed has made such a declaration. And immediately after Greenspan’s statement, U.S. Treasury Secretary John Snow effectively declared the end of a “strong dollar” policy (Crooks, 2003), which amounted to a similar policy loosening from the fiscal side, with tax cuts and rising spending soon to create America’s largest budget deficit ever.

This sudden love for inflation is boosted by an old-new fear: *deflation*. The fear is not unfounded. In 2002, the ratio of total debt to GDP in the United States reached 290%—compared with 165% on the eve of the Great Depression. Under these circumstances, if prices begin falling, firms will be unable to service their debt—and then we face the risk of debt deflation, chain bankruptcies, and a total meltdown of accumulation; in other words, the “China Syndrome” of capitalism.<sup>38</sup> The overall sentiment was summarized in a recent article by Bill Dudley of Goldman Sacks and Paul McCulley of Pimco: “Greenspan must go for higher inflation,” they insisted. “Inflation is too low, rather than too high,” and “the Fed should welcome a modest rise in inflation” (“Greenspan Must Go For Higher Inflation,” *Financial Times*, Apr. 23, 2003, 17).

These considerations point to the emergence during the early 2000’s of a broad, pro-inflation coalition. The outer perimeter of this coalition is the business sector as a whole that needs inflation in order to avert the prospect of debt deflation. The inner circle of dominant capital wants inflation in order to continue its differential accumulation, now that mergers and acquisitions are in remis-

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<sup>38</sup> As the Great Depression unfolded, falling nominal GDP caused the debt-to-GDP ratio to soar to over 270 percent. A comparable decline in nominal GDP today would push the debt-to-GDP ratio to over 400% (computations in the paragraph and note are based on proprietary data courtesy of the Bank Credit Analyst Research Group, <http://www.bankcreditanalyst.com/>).

sion. And these forces are supported by central bankers and finance ministers who have been priming the monetary and fiscal pumps, keeping policy on a “loose” footing.

### *Oil Prices, Inflation, and Profits*

But wishful thinking and expansionary policies alone are not enough to kick-start inflation, Japan of the 1990’s being a case in point. To ignite inflation you need a spark. And historically—at least over the past 30 years or so—the spark that ignited inflation has always come from the Middle East, and, specifically, from the price of oil.

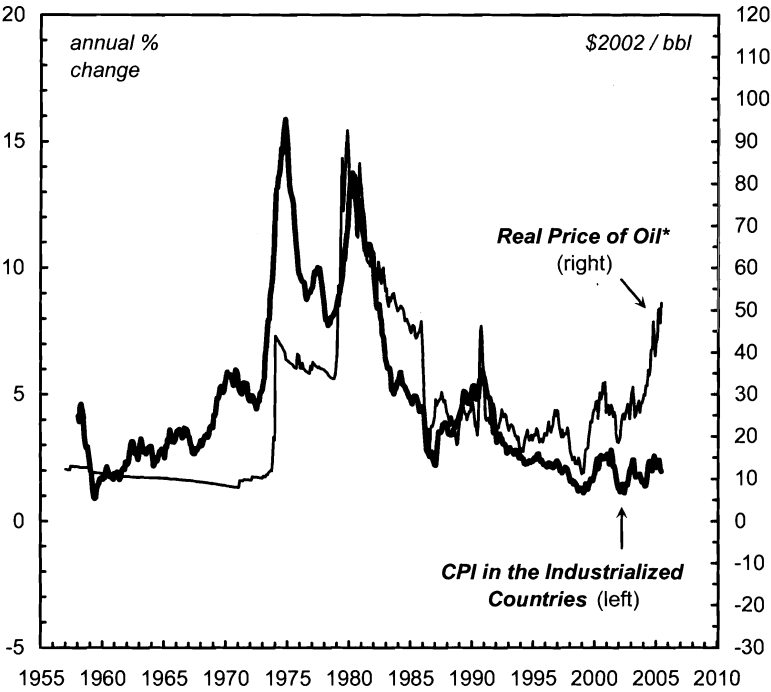
The relationship between oil prices and inflation is illustrated in figure 9. The thick line in this chart measures the average rate of inflation in the industrialized countries. The thin line shows the “real” price of oil—in other words, the dollar price deflated by the U.S. consumer price index (CPI). And as the figure shows, since the mid 1970’s, oil prices have been a clear “leading indicator” for inflation.<sup>39</sup>

Of course, the price of oil does not go up simply because one wants it to rise. Someone—and specifically those who sell and buy oil—must push/pull up this price. Now, everyone knows that crude oil producers, particularly OPEC, benefit from higher oil prices. But apparently not too many people realize that the oil companies—which are the biggest *buyers* of crude oil—are also hooked on high oil prices. The reason for this addiction is simple enough. A rise in the price of crude oil tends to tighten cooperation among oil companies and spread panic among buyers; this sweet combination has the effect of solidifying and even raising markups; and if you multiply higher cost by higher markups, you get much higher profits.

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<sup>39</sup> Note that we emphasize here oil prices as a “leading indicator” rather than a direct cause of inflation. The relationship between oil prices and inflation is only partly anchored in the role of oil as a key production input. (The dollar value of oil produced in 2001 accounted for only 2.1% of world GDP, compared to 7.5% in 1980—still a sizable proportion but hardly enough to “determine” overall inflation.) The more important reason for the correlation is that the leading capitalist groups tend to view the price of oil as a barometer of future inflation and adjust their overall pricing strategies in line with its fluctuations.

**Figure 9**  
Inflation and the Price of Oil



\* \$ price of crude oil deflated by the U.S. CPI.

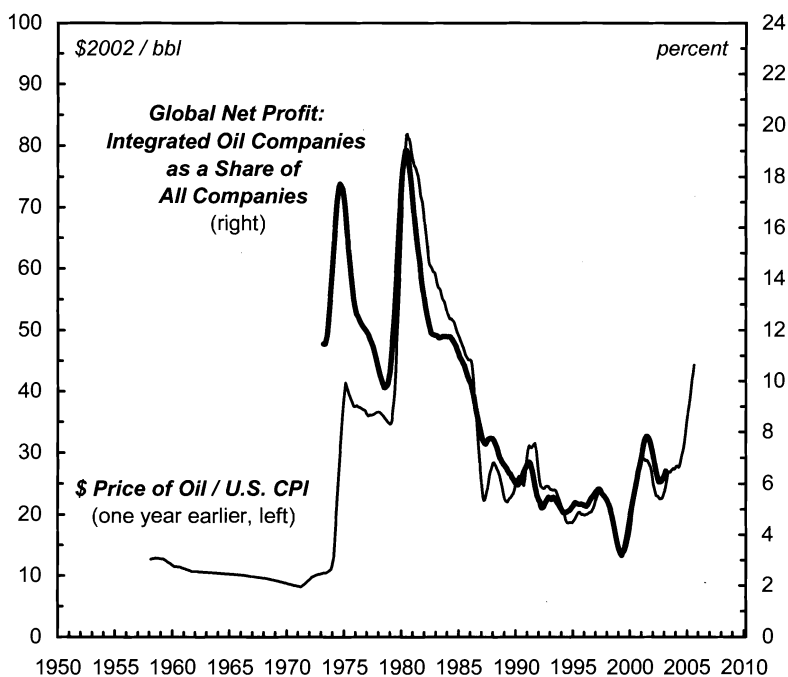
Source: *International Financial Statistics* through Global Insight (series codes: L64@C110 for CPI in the industrialized countries; L76AA&Z@C001 for the price of crude oil; L64@C111 for the U.S. CPI).

The result is that production volumes are relatively insignificant to oil profit. The key factor is price—and the higher, the better. In this drama, OPEC is a friend, not a foe of the oil companies; certainly there is no need to conquer its oil wells (that is, unless the cartel has neglected its duty and let the price drop to \$10 a barrel, as it did in 1999). The impact of oil prices on the differential accumulation of the oil companies is illustrated in figure 10. The thick line shows the percent share of oil companies in global corporate profit. The thin line shows the “relative” price of oil, computed by dividing the dollar price per barrel by the U.S. CPI, and



lagged one year.<sup>40</sup> The correlation between the two series is so tight that you can hardly squeeze a pin between them. If you know what happens to the relative price of oil, you know pretty much what happens to the differential profits of the oil companies.<sup>41</sup>

**Figure 10**  
The Price of Oil and the Global Distribution of Profit



Note: Net profit is computed by dividing market value by the price/earning ratio. Data are restated to reflect changes in the constituent companies in the series. Series are smoothed as twelve-month moving averages.

Source: Datastream (series codes: OILNWD for the integrated oil companies; TOTMKWD for world total); Global Insight (series codes L76AA&Z@C001 for the price of crude oil; L64@C111 for the U.S. CPI).

<sup>40</sup> For monthly data, a series that is lagged one year shows, for every given month, the value of the series in the same month a year earlier. Reported corporate earnings represent the moving sum of the past four quarters. The full impact on profit of a change in the price of oil therefore is felt only after twelve months, hence the comparison with a price series that is lagged one year.

<sup>41</sup> The correlation coefficient between the two monthly series measures 0.80 (out of 1) for the period since Jan. 1974, and 0.92 for the period since Jan. 1979.

During the oil crisis of the 1970's and early 1980's, the cost of oil shot through the roof. In 1979 a barrel of oil cost over \$90 in today's prices. During those happy stagflationary times, the oil companies pocketed nearly 20% of all global profits. But as differential accumulation moved into breadth, mergers and acquisitions picked up, inflation fell and oil prices dropped even faster. The oil companies' global share of profit collapsed, reaching a mere 3% during Clinton's presidency.

To recap, then, the situation on the eve of the 2001 U-turn was as follows: (1) firms the world over had become scared of deflation; (2) dominant capital developed a yearning for some inflation, now that mergers had gone into hibernation; (3) central banks started to worry that inflation was "too low"; and (4) OPEC and the large oil companies witnessed the price of oil slide and their earnings fall to the abyss. At this conjunction, a rise in the price of oil, hopefully feeding into a more generalized inflation, would have made them all heave a sign of relief.

### *The New Wars*

But, then, how do you get oil prices to go up in a world "drowning in oil," as *The Economist* of London put it? ("Drowning in Oil," Mar. 6, 1999, 19) The answer is cruel but simple: conflict in the Middle East.

Since the 1960's, Middle East conflicts were closely related to oil in more than one way. Most explanations of this link combine "realism" with "economics." The basic reasoning boils down to an international conflict over raw materials. On the one hand, we are told, there are the industrialized countries that "need" cheap oil in order to sustain their "growth" and "expanded reproduction." On the other hand there are the countries of the Middle East, organized through OPEC, whose intention is to extract from the process as much "rent" as they can. This broad conflict is complicated by various factors: for example, interstate rivalry—say between the United States on the one hand, and the former Soviet Union (previously) and Europe and Asia (presently) on the other; religious and ethnic hostilities in the Middle East itself; or the interests of various "sectors" and capitalist "fractions" in the industrialized countries.

In this polemic of high politics and resource economics, few have bothered to break through the aggregate front, fewer have

done empirical work, and almost no one has dealt with the question of how exactly accumulation by the oil companies fits into the picture. Figure 11 shows the history of differential accumulation by the “Petro-Core” of leading oil companies—specifically, BP, Chevron, Exxon, Mobil, Royal-Dutch/Shell, and Texaco.<sup>42</sup> Each bar in the figure measures the difference between the rate of return on equity of these companies and the average rate of return on equity of the Fortune 500 benchmark (with the result expressed as a percent of the average). The gray bars show years of differential accumulation; that is, years in which the leading oil companies beat the average with a higher rate of return. The black bars show periods of differential *decumulation*; that is, years in which the leading oil companies trailed the average. For reasons that will become apparent in a moment, these latter periods signal “danger” in the Middle East. Finally, the explosion signs show “Energy Conflicts”—namely, conflicts that were related, directly or indirectly, to oil.<sup>43</sup>

The figure exhibits three related patterns, all remarkable in their persistence:

- First, *every* energy conflict in the Middle East was preceded by a danger zone, in which the oil companies suffered differential *decumulation*.
- Secondly, *every* energy conflict was followed by a period during which the oil companies beat the average.
- And, thirdly, with only one exception in 1996–67, the oil companies *never* managed to beat the average without an energy conflict first taking place.<sup>44</sup>

This “if-and-only-if” pattern seems almost too stylized to be true. Is it possible that the *only* thing that makes the oil companies beat the average are wars in the Middle East? And could it be that

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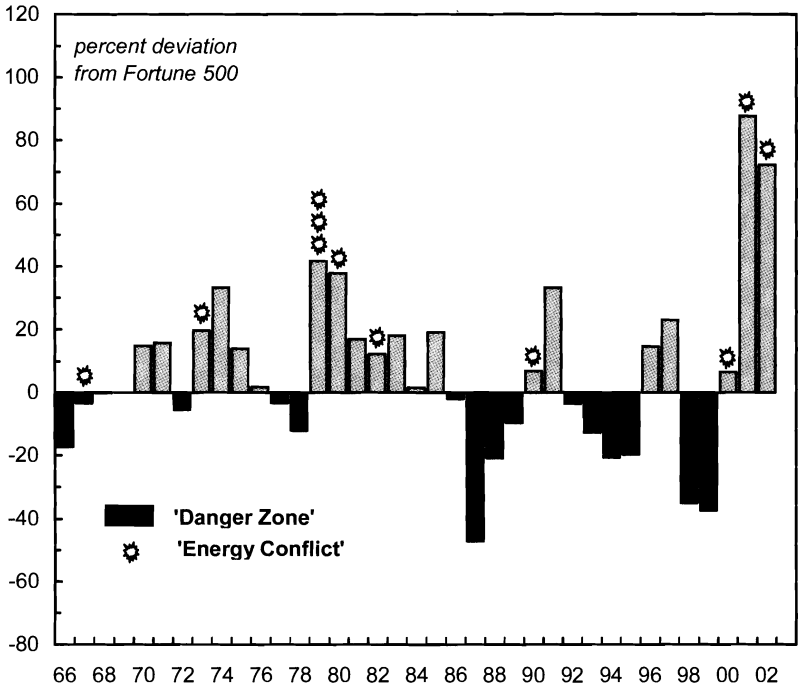
<sup>42</sup> Due to mergers, the data in figure 11 pertain to British Petroleum till 1997 and for BP-Amoco since 1998; to Chevron and Texaco till 1999 and to Chevron-Texaco since 2000; to Exxon and Mobil till 1998 and to ExxonMobil from 1999; and to Royal-Dutch/Shell throughout.

<sup>43</sup> The conflicts include the 1967 Arab-Israeli conflict; the 1973 Arab-Israeli conflict; the 1979 Israeli invasion of Lebanon; the 1979 Iranian Revolution; the 1979 Soviet invasion of Afghanistan; the 1980 beginning of the Iraq-Iran War; the 1990–91 first Gulf War; the 2000 beginning of the second *Intifada*; the 2001 Coalition invasion of Afghanistan; and the second Gulf War that began in 2003.

<sup>44</sup> Although there was no “official” conflict in 1996–97, there was plenty of violence, including an Iraqi invasion of Kurdish areas and U.S. cruise missile attacks.

the *only* “pre-requisite” for conflict in the Middle East is the “underperformance” of several oil companies?

**Figure 11**  
The Petro-Core’s\* Differential Accumulation and  
Middle East “Energy Conflicts”



\* British Petroleum till 1997 and BP-Amoco since 1998; Chevron and Texaco till 1999 and Chevron-Texaco since 2000; Exxon and Mobil till 1998 and ExxonMobil from 1999; Royal-Dutch/Shell. Company changes are due to merger.

Note: Until 1993, the Fortune 500 list included only industrial corporations (firms deriving at least half their sales revenues from manufacturing or mining). From 1994 onward, the list includes all corporations. For 1992–93, data for Fortune 500 companies are reported without SFAS 106 special charges.

Source: *Fortune*; Standard & Poor’s *Compustat*.

Of course not. Human history is always partly a documentary, partly an adventure story. Since the narrative of the story is chosen by those who tell it, the result is inherently controversial (Carr,

1961). The important thing about history, though, is not its particular “ending” or “conclusions,” but its very possibility—that is, our ability to conceive a pattern, a logic, a meaningful sequence in human affairs. The particular history examined in this article derives from and critiques many layers of prior conceptual revolutions—including the invention of history in Ancient Greece (Castoriadis, 1991), the mechanical worldview from Ancient Egypt to Kepler, Galileo, and Newton (Mumford, 1967; 1970), the dialectical method of Hegel and Marx, Gabor’s hologram and its metaphoric derivations from Veblen to Bohm, the theory of a world-system (Wallerstein, 1987), and last but not least, the multitude of “postisms.”

Obviously, then, the capitalist history we describe here can never be reduced to a single mechanical reason. But to understand this history means to give it a pattern, to assign an order to the various explanations that constitute its *nomos*, and to be able to use this pattern to make some meaningful predictions.

### *Prediction as Creative Spark*

These predictions, we should emphasize, are not meant as a technical exercise (of the type proposed by Karl Popper). Unlike the ancient wizard and the modern security strategist, we do not mean to imply that history is somehow “predetermined” and therefore “foreseeable.” Unlike the econometrician, we do not wish to anticipate the past by fitting regression models. And unlike the financial analyst, our goal is not to outguess the future in order to beat the average. The purpose is entirely different: it is to light a spark, to create a flash, to enable insight.

Why do we need such a spark? According to Cornelius Castoriadis (1991), every society is constituted and re-constituted by a “cognitive closure,” a solid wall of beliefs that creates, defines and contains its basic ontology and epistemology—to the exclusion of all alternatives. Every new theory, including our own, has to penetrate this cognitive closure. In order to pierce this cognitive closure the new theory needs to be articulated logically and demonstrated historically. But that in itself may not be enough. Logical consistency and historical insight can easily be ignored.

And it is here that prediction serves a role: it grabs attention. By peering into the unknown future, by providing insight into yet unobserved events, by shedding light on previously ignored reali-

ties, prediction creates a sense of adventure. It is a flare, a stunt, a spectacle. It is a light beam that lures us, through the cracks in the wall, to look beyond our own closure.

With this in mind, note that the pattern of accumulation and conflict in figure 11 is not a retroactive “prediction” of history. We first suggested this pattern in a series of discussion papers in the 1980’s. These papers predicted the first Gulf War of 1990–91.<sup>45</sup> We then developed the argument further in a two-paper series published in 1995–96. These latter articles predicted the second Gulf War that began in 2003.<sup>46</sup> We also situated these processes in the larger vista of differential accumulation regimes and, in 1999, predicted the coming swing from breadth through merger to depth through stagflation.<sup>47</sup>

Note further that this pattern has not been concocted out of thin air. It is not a mere correlation discovered by accident, or through mindless computer simulations. Rather, it emerges from a systematic discussion that begins from a critique of the “substantive” view of capital and develops an alternative theory of “capital *as* power.” This theory then leads us to the concept of differential accumulation by dominant capital, to the growing symbiosis of capital and state, and to the increasing integration of dominant capital and state organs. From there, we develop the logic of differential accumulation regimes, the primacy of corporate merger and stagflation, and the political history of their pendulum. It is within this broader understanding of the capitalist *nomos* that the interaction between the oil companies and international conflict needs to be examined.

### *The Historical Pattern: Past and Future*

The historical pattern in figure 11, although stylized, is far from uniform. This pattern is mediated by shifts in the nature of global differential accumulation and by inner conflict within dominant capital itself. Specifically, we can identify three distinct periods, each characterized by a different regime of differential accumulation, and each led by a different subset of dominant capital. Figure 12 shows the changing fortunes of two such coalitions, expres-

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<sup>45</sup> See Rowley, Bichler & Nitzan (1989); Nitzan, Rowley & Bichler (1989), and Bichler, Rowley & Nitzan (1989).

<sup>46</sup> See Nitzan & Bichler (1995) and Bichler & Nitzan (1996).

<sup>47</sup> See Nitzan (1999; 2001) and Nitzan & Bichler (2002: ch. 2).

sed as the percent share of each group in global net profit. The first group, which we label the “Weapon-dollar-Petro-dollar Coalition,” comprises the world’s listed armament contractors and oil companies. The second group, the “New Economy Alliance,” is made of listed hardware and software information technology firms that operate mostly in civilian markets. By comparing the progression of the series in figure 11 and figure 12, we can make sense of the broad pattern of global differential accumulation, of the changing role of the two coalitions within dominant capital, and of the troubled history of Middle East “Energy Conflicts.”<sup>48</sup>

During the depth era of the 1970’s and early 1980’s, global differential accumulation was fuelled by stagflation, driven by conflict, and idealized by superpower confrontation. The leading faction within dominant capital was the “Weapon-dollar-Petro-dollar Coalition,” whose overall share of global profits peaked at over 20% (figure 12). In this context, the largest oil companies, being politically front and center, managed to *beat* the average comfortably, with only occasional setbacks that were quickly “corrected” by Middle East conflicts (figure 11).

During the breadth period of the late 1980’s and 1990’s, merger replaced inflation as the main engine of global differential accumulation, superpower confrontation gave way to talk of a “global village,” and war profits made room for peace dividends. The leading faction of the breadth phase was the “New Economy Alliance,”

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<sup>48</sup> The composition of the different coalitions, their operational boundaries, and their financial indicators of interest have all changed over the years. The changes reflect the incessant restructuring of the different groups as well as the availability of data. In our early studies, during the 1980’s, we defined the “Weapon-dollar-Petro-dollar Coalition” as comprising nine armament groups and six oil companies (Bichler, Rowley & Nitzan, 1989; Rowley, Bichler & Nitzan, 1989). In the mid 1990’s, we expanded the boundaries to include sixteen armament contractors and six oil firms (Nitzan & Bichler, 1995; Bichler & Nitzan, 1996). By the early 2000’s, after massive consolidation, the composition of the coalition again changed. It now included six leading oil companies and seven key armament firms (Nitzan & Bichler, 2002: 269, table 5.4). The key financial indicator in these studies was net profit. The “New Economy Coalition” (which we also called the “Technodollar-Mergerdollar Coalition”) was introduced in 2002. Operationally, it included the 54 leading firms in the S&P index. We contrasted this coalition with a comparable proxy for the “Weapon-dollar-Petro-dollar Coalition.” This proxy comprised nine aerospace/defense companies, eleven domestic integrated oil companies, and six international integrated oil companies, all aggregated by the S&P index (Nitzan & Bichler, 2002: 272, figure 5.9 and 294–96). This latter comparison centered on market capitalization rather than profit. The operational definition of the two coalitions in the present article is much wider, in that it includes *all* listed companies (rather than only the largest ones).

whose hectic mergers and leveraged hype helped send its global profit share to 14% by the end of the period, while that of the “Weapondollar-Petrodollar Coalition” sank to an unprecedented low of 3% (figure 12). Neoliberal rhetoric replaced the welfare-warfare state, conflicts in the Middle East grew fewer and farther between, and the large oil companies commonly *trailed* the average (figure 11).

Events over the past few years suggest that this second period may have come to an end: the long merger boom has collapsed, stagflation has picked up, and the global trajectory has shifted from peace dividends back to war profits. Whether these developments represent a mere historical blip or the beginning of a long depth regime, is of course much too early to tell and certainly beyond the scope of this article. We hope to widen the historical picture in our future work. In the meantime, we restrict ourselves to several “positivist” propositions about what may lie ahead.

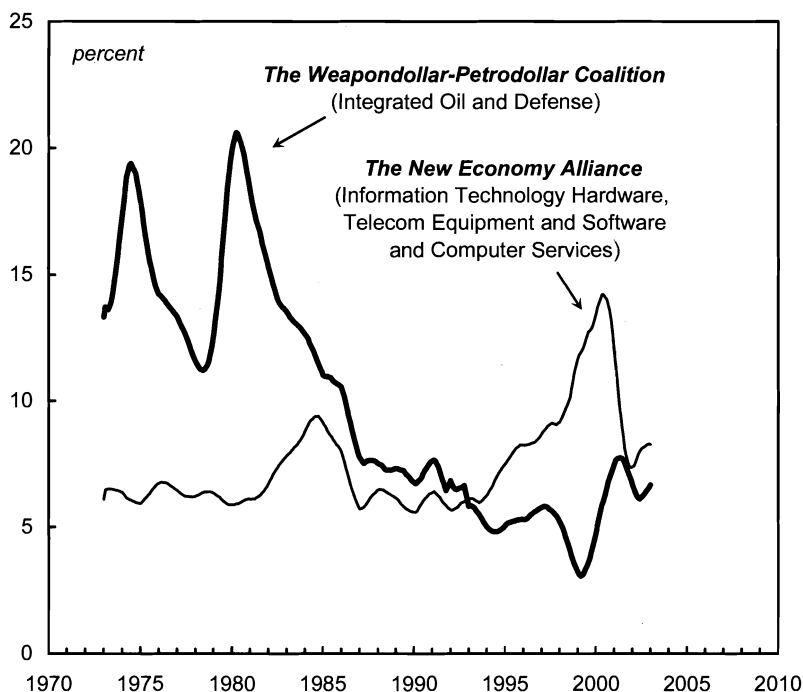
Looking forward, our framework in this article suggests three possible paths: (1) differential accumulation through renewed breadth, (2) differential accumulation via depth, or (3) differential *decumulation*. As these lines are being written (late 2004), there are preliminary signs that merger activity has begun to revive after three years of sharp declines. If this revival gains momentum, dominant capital will be all too happy to bury the stagflation hatchet. But the merger upswing could falter (as it did in the 1900’s, the 1930’s, and early 1970’s; see figure 4)—and if it does fade, dominant capital will likely prefer stagflation over differential decumulation.

The conditions for this latter scenario remain in place. Neoliberal breadth requires relative price stability—but as we have seen, there is now a growing pro-inflation coalition supported by dominant capital in general and the oil companies in particular, along with accommodative central bankers and finance ministers. For this inflation to take hold, oil prices have to go up, and for oil prices to go up there needs to be continued conflict in the Middle East. This conflict, popularly known as the “infinite war on terror,” is detrimental to capital mobility, the lifeline of global breadth. Finally, the “war on terror” justifies rising military spending; soaring military expenditures means the end of “fiscal discipline” and “lean government”; and policy profligacy makes capitalists think of inflation. If unchecked, these processes will undermine the conditions for renewed breadth; and without the prospect of breadth, the road will



be clear for global depth, along with stagflation, instability, and conflict.

**Figure 12**  
Shares of Global Net Corporate Profit



Note: Net profit is computed by dividing market value by the price/earning ratio. Series denote monthly data smoothed as twelve-month moving averages. Source: Datastream (series codes TOTMKWD for world total; OILINWD for integrated oil; DEFENWD for defense; INFOHWD for information technology hardware; TESEQWD for telecom equipment; SFTCSWD for software and computer services).

### *New Imperialism or New Capitalism?*

The capitalism of our times is certainly oppressive and violent—although probably less so than the capitalist imperialism of the eighteenth and nineteenth centuries, and far less so than the prior, noncapitalist empires of the Orient, Arabia, Europe, and the Americas. But oppression and violence alone do not make capitalism imperial, no matter how catchy the term may sound.

The hallmarks of the capitalist imperialism of the eighteenth and nineteenth centuries were pretty specific:

- First, unlike prior imperialisms, this one was clearly capitalist; it was dominated by capitalist owners and driven by the imperative of capital accumulation.
- Secondly, it was based on a clear statist/geographic distinction between core and periphery.
- Thirdly, it involved territorial conquest in the periphery and conflict between the core states themselves.
- Fourthly, and perhaps most importantly, it was fuelled by the systematic export of capital from the core to the periphery on the one hand, and by the visible plunder and apparent exploitation of the periphery by the core on the other.

Following Hobson, Luxemburg, Hilferding, and Lenin the theory of Monopoly Capitalism provided a pretty consistent framework for understanding these features. Later, the process of decolonization gave rise to various theories of dependency. But these features themselves have now changed.<sup>49</sup> Furthermore, some of the key categories with which these features were analyzed have become difficult if not impossible to use.

Accumulation today is also capitalistic—but it no longer has the clear hallmarks of *imperialism*. We can certainly speak of the power of capitalists to control and shape society, perhaps more than ever before. But we can no longer easily root that power in the “exploitation” of workers who are not being paid the full “value” of their labor. Production certainly is a key aspect of capitalist power, yet its pseudoquantities shed no light on the accumulation of such power denominated in money terms. We can quantify the architecture of power, but we cannot denominate this architecture in units of “abstract labor” and definitely not in units of “surplus value.” And without abstract labor and surplus value, a whole host of derivative concepts—from “exploitation,” to “expanded reproduction,” to “the falling tendency of the rate of profit,” “unequal exchange,” “productive vs. unproductive labor,” “fictitious vs. industrial capital,” etc.—lose their analytical meaning.

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<sup>49</sup> For a penetrating critique of Leninist and Trotskyist analyses of capitalist development in the twentieth century, see Machover (1999).

The mechanisms of accumulation now go way beyond the so-called “process of production.” They encompass, in theory as well as in practice, the entire gamut of power in society. The “class struggle” that once seemed centered on the factory floor, has now spread into every aspect of social existence and inexistence. The underlying goal is to produce not more goods and services, but more predictable social subjects—ones whose “preferences” could be easily molded and whose “reactions” made predictable with a statistical “level of confidence.”

Where profits previously seemed to spring out of technological advance, they now increasingly hinge on the legal protection of technology and other forms of exclusion. Capital increasingly looks forward, not backwards. It is financial rather than material. It is counted not in productive machines and structures, but in earning power and risk. Accumulation increasingly operates through merger rather than green-field growth; there is no need to conquer with the military what you can easily buy on credit. Profits often benefit greatly from inflation; where previously capitalists needed to sell more, now they can also charge more.

We can clearly identify state organizations; it is far more difficult to separate their logic from that of accumulation. The logos of capital are everywhere—Microsoft, DaimlerCrysler, ExxonMobil—but their owners no longer have a clear nationality. When the U.S. government goes to war—as well as levies taxes, pays subsidies, devalues the currency, deregulates its business, changes labor laws, scares its population, and what not—its actions are discounted not by “American” capital, but by *global dominant capital*.

Unlike the U.S. military, this dominant capital can, and does, go everywhere. It buys assets in Brazil and Tasmania while selling them, on a moments notice, in the United States and China. It is affected by global developments often regardless of its location—a rise in oil prices can benefit owners who live in Stockholm, San Paulo, and London more than those who live in Riyadh, Kuwait, or New York. Using transfer prices and tax havens, dominant capital can change its profit without moving at all.

The “United States” may be strong or weak, but it is not a capitalist empire. The capitalists who happen to live there are decreasingly “American” in terms of what they own, and many of those who own “American” assets live elsewhere. The “United States” has no savings to export; it desperately needs those of others. U.S.-

based capitalists do not unleash their government against other core countries, and when the United States does go to war—in Grenada, Panama, Afghanistan, or Iraq—the purpose is neither conquest, nor the “exploitation” of the conquered.

It is not that capitalism has simply grown more complicated. It has become *different*. The capitalist *nomos* has changed. It is time to change our theories.

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